

SUBJECT

BOARD RESOLUTION NO. 25-454

Pertaining to the addition of a fifth work package to the Amended and Restated Progressive Design-Build Agreement with CH2M Hill Engineers, Inc. for the McCarron's Treatment Process Improvements Project.

STRATEGIC PLAN GOALS: Quality Water and Financial Stability

See attached summary.

RECOMMENDATION

Approval

McCarron’s Treatment Plant Improvements Project

Staff Report: Work Package 5

Executive Summary: SPRWS staff and project partner, Jacobs Engineering, have reached a major milestone in by agreeing on a Guaranteed Price for the remaining work on the McCarron’s Treatment Plant Improvements Project (WTP Project). Barring any unexpected developments, this is expected to be the final work package for the project. Staff is seeking approval from the Board of Water Commissioners to move forward with the fifth work package for the project. The total contract value of the fifth work package is **\$11,064,129**.

A contract for this project already exists and has been amended several times (as described herein.) Contracting for the final work package requires amendments to the contract to ensure that the final scope of work is adequately defined in the contract and that the contract covers the full balance of funds for the project.

The contract amendment would also close out the design phase, which finished under budget by \$681,961.

Staff Recommendation Staff recommends approval of the contract amendment which includes revisions to accommodate the fifth work package.

History of Work Packages and Proposed Changes in Value

The table below summarizes the resolutions that have been adopted previously under the WTP Project contract with Jacobs/CH2M Hill.

Contract Summary: To Date			
Work Package	Value	Resolution	Date
Design Phase	\$ 13,666,427	RES 21-68	Jan-21
Work Package 1 (Construction)	\$ 22,239,688	RES 22-75	Jan-22
Work Package 2 (Construction)	\$ 11,400,000	RES 22-210	Feb-22
Work Package 3 (Construction)	\$ 21,084,570	RES 22-351	Mar-22
Design Phase Change Order	\$ 669,875	RES 22-351	Mar-22
Work Package 4 (Construction)	\$ 170,165,742	RES 22-896	Jun-22
Total Value (to date)	\$ 239,226,302		

If the board approves the contract amendment for Work Package 5, the adjustments shown in red below would take effect resulting in a net increase in contract value.

Contract Summary: If 3/18/2025 Amendment is Approved			
Work Package	Value	Resolution	Date
Design Phase	\$ 13,666,427.00	RES 21-68	21-Jan
Design Phase (Under Budget Finish)	\$ (681,961.00)	For Board Review on 3/18/2025	
Work Package 1 (Construction)	\$ 22,239,688.00	RES 22-75	22-Jan
Work Package 2 (Construction)	\$ 11,400,000.00	RES 22-210	22-Feb
Work Package 3 (Construction)	\$ 21,084,570.00	RES 22-351	22-Mar
Design Phase Change Order	\$ 669,875.00	RES 22-351	22-Mar
Work Package 4 (Construction)	\$ 170,165,742.00	RES 22-896	22-Jun
Work Package 5 (Construction)	\$ 11,062,492.00	For Board Review on 3/18/2025	
Total Value	\$ 249,606,833.00		
Note: This is a summary of the contract with the Design-Builder only. Other project costs (i.e. staff time, Owner's Representative work, cost of debt issuance, etc.) exist but are minor components of overall project cost.			

Scope of Work

The scope of work for this work package is most completely described in Exhibit L6 and Exhibit L7-6 of the contract. The description provided herein is intended as a summary of the major components of the work.

The Scope of Work for this the final work package involves the construction of a new laboratory facility, operator spaces, and office facilities; final landscaping and site restoration; some demolition of facilities that has not been previously contracted; construction of stormwater infrastructure; and installation of some flow control devices near the filter influent piping.

Pricing Before Using Surplus Funds from Previous Work Packages

The total value of the work covered by this contract amendment is \$14,044,582.

\$12,986,519 is guaranteed to the Design-Builder as a Lump Sum value (see below, a portion of this will be paid through the use of surplus funds from previous work packages).

An additional \$1,058,063 is available to the Design-Builder (upon approval from the Owner) for Allowance Items. Allowance items are utilized for costs which may or may not materialize and for which the owner retains the risk.

Any unspent funds from the Allowance Items will be returned to the Owner in full.

Use of Surplus Funds from Previous Work Packages

Because the project has been under-budget to date, SPRWS staff has elected to utilize some surplus funds from previous work packages to fund portions of this work. Freeing up these funds to pay for portions of this work avoids making the project look artificially expensive by utilizing funds that have been previously budgeted, authorized, and financed but that are unlikely to be spent.

SPRWS staff has identified \$2,982,090 of surplus funds available from previous work packages and has agreed to pay for that work value from these surplus funds. **Consequently, the resulting amendment to contract value associated with this contract is \$11,062,492** (calculated as: \$14,044,582 - \$2,982,090).

All portions of work that will be funded using surplus funds from previous work packages are part of the Lump Sum portion of work.

Not all of the work from previous work packages has been completed, as indicated in the table below. As such, there's some increased risk of a change order becoming necessary if unexpected developments occur as we close out the remaining work on those work packages.

Overview of Previous Work Packages and Funds Utilized to Pay for Work Package 5 Work					
Work Package	Value	Spent to Date (as of Feb.	Remaining	Funds Utilized for WPS	Notes
Work Package 1 (Construction)	\$ 22,239,688.00	\$ 18,055,073.96	\$ 4,184,614.04	\$ 741,146.00	85% complete and trending under budget
Work Package 2 (Construction)	\$ 11,400,000.00	\$ 10,618,538.77	\$ 781,461.23	\$ 240,502.00	This work is fully complete
Work Package 3 (Construction)	\$ 21,084,570.00	\$ 15,019,696.47	\$ 6,064,873.53	\$ 392,430.00	83% complete and trending under budget
Work Package 4 (Construction)	\$ 170,165,742.00	\$ 131,877,759.62	\$ 38,287,982.38	\$ 1,608,012.00	82% complete and trending under budget
Total Value (to date)	\$ 224,890,000.00	\$ 175,571,068.82	\$ 49,318,931.18	\$ 2,982,090.00	

We believe that we have reserved ample funds to cover any risks that are likely to develop as we finish previous work packages.

Tariffs

At the time of contracting, the tariff landscape is shifting considerably. Because tariff regulations are shifting rapidly and difficult to predict over the short or long term, the changes in tariffs that have occurred since Jan. 20, 2025 have not been considered in the pricing of the fifth work package. If tariffs increase in a way that materially impacts the cost of work for Work Package 5, the Design-Builder will be entitled to commensurate adjustments to contract price.

The Design-Builder and their subcontractors bear the burden of proof with regard to demonstrating how tariff changes which have occurred after Jan. 20, 2025 have materially impacted project costs. The owner will approve only those changes to contract value which are demonstrated to be valid outcomes of changing legal requirements through appropriate documentation.

Present and future changes to tariffs which occur between now and when all equipment is actually purchased from and delivered by suppliers likely represent the most significant outstanding risk for SPRWS on this work package.

While SPRWS staff isn't eager to take on tariff risks, we recognize that this risk is not controllable by the design-builder or their subcontractors. Generally, we have assumed macro-economic risks and other risks that are beyond the control of the design builder since passing that risk on to the design-builder would result in an increase in the cost of construction and we believe that the design-builder is unlikely to underestimate the potential cost implications. This strategy has saved millions over the course of the project, but past success with this strategy does not guarantee future success.

Summary of Negotiation Efforts

The purpose of this section is to demonstrate that SPRWS staff has been diligent in reviewing all price proposals for the project and in seeking the best value for our customers.

Assembling price proposals for multi-year, complex projects is tremendously nuanced work. It's also work that must be done very quickly, since vendors, equipment suppliers, and subcontractors often only hold their pricing for a short period of time. Because of the complexity and speed of the undertaking, the first draft of the price proposal often includes some errors, omissions, and redundancies.

Further, such price proposals depend meaningfully on assumptions and estimates. For example, at the project outset, it's impossible to know exactly how many hours the construction superintendent will spend on the job or how what risks will materialize. While the numbers used for estimating these

variables are rigorously determined based on past project experience and field observations, there remains some subjectivity in determining the final number that drives pricing.

Finally, some items always come back with higher price tags than expected. Those unexpectedly large numbers show up in the initial price proposal for the work and are the impetus for scope changes to find more economical alternatives.

With the knowledge that price proposals are subject to error and subjectivity and that opportunities for substitution exist, SPRWS staff and the Owner's Representative team have been thorough in reviewing all price proposals submitted. During our review, we have managed to meaningfully reduce project costs. The staff report associated with RES 22-896 detailed negotiation efforts for Work Packages 1-4. Below is a summary of the negotiation efforts associated with Work Package 5.

The original price proposal for this work was submitted on January 7, 2025 and was valued at a total cost of \$14,955,121. Following negotiations and scope adjustments, we are bringing forward a contract amendment valued at \$14,044,582, meaning that our efforts resulted in a net reduction of \$910,539 from project costs.

The use of surplus funds from previous work packages does not result in an actual decrease in project cost; rather, it helps ensure that the contracted value for the project more closely matches the actual projections for final cost.

Previous negotiations and scope adjustments had yielded a reduction of \$9.8M in costs (original proposed value vs final contracted value.) With the additional reductions referenced above, negotiation efforts and scope adjustments resulted in a reduction of about \$10.7M in all anticipated project costs (lump sum savings + contingency savings – allowance additions).

It should be noted that these negotiation efforts are not principally a zero-sum effort. The Design-Build team was tremendously helpful throughout the process in developing cost-saving alternatives, evaluating ideas, and helping to minimize project scope as much as possible.

Treatment of Contingency

Contingency funds are those funds held to cover risks that are owned by the Design-Builder. For this work package, SPRWS staff negotiated a contingency value of 4.08% of total work package value, which is considerably below the typical construction contingency value of 5-10%.

In work package 1, SPRWS guaranteed contingency funds to the Design-Builder and did not require tracking of contingency spending. This is a favorable arrangement for SPRWS when most of the risks associated with a given scope of work are relatively minor and low-dollar-value.

In work packages 2-4, SPRWS did not guarantee contingency funds to the Design-Builder and required the Design-Builder to seek approval for any contingency spending. This requires a significant increase in paperwork and project administrative costs but opens the door to potential savings if fewer risks are encountered during construction. This is a favorable arrangement for SPRWS when there are significant, high-dollar-value risks associated with a scope of work.

For work package 5, we believe that most risks have low dollar values, so we began to lean towards guaranteeing the contingency funds as we did with the first work package. This results in greatly

reduced administrative expense for the Design-Builder and, correspondingly, a reduction in the Design-Builder's fee for overhead and profit for contingency work.

Ultimately, SPRWS staff and the Design-Builder agreed to meaningful reductions in the overall contingency value provided that the contingency was treated as a lump sum and guaranteed to the Design-Builder. We believe this is the optimal arrangement for our customers as it results in a smaller total project cost and reduced administrative burden on SPRWS staff. The total contingency for this work package is 4%, which is meaningfully less than the 5% to 10% that is typical on construction projects and supports our opinion that the lump sum arrangement is the best deal for SPRWS customers in this instance.

Escalation

In previous work packages, which were contracted at times of greater economic uncertainty and higher inflation, SPRWS had retained some risk for material and labor escalation. For this work package, all escalation risks have been assumed by the Design-Builder and their subcontractors.