

## STAFF REPORT



**SUBJECT:** Stephenville Wastewater Treatment Plant  
Amendment to Agreement for Operations, Maintenance and Management Services  
Jacobs/CH2M OMI Proposed Agreement Amendment for FY 2021-2022

**MEETING:** Public Works Committee Meeting - 23 SEP 2021

**DEPARTMENT:** Public Works

**STAFF CONTACT:** Nick Williams

### RECOMMENDATION:

Staff recommends approval of the proposed contract amendment with a 3.50% base rate increase. The proposed increase is a 2.75% overall increase of \$22,652.68 yielding an annual wastewater treatment operational cost of \$845,590.00 in accordance with the existing agreement.

### BACKGROUND:

Provisions of the existing operations and maintenance agreement with CH2MHILL/OMI are reviewed annually. The city originally entered into an agreement with OMI in 1996 for the daily operations and maintenance of the wastewater treatment plant (WWTP). The city renewed the contract with CH2MHILL/OMI on October 7, 2014. The term of the agreement was extended to match the finance period for two backup electrical generators, which CH2MHILL/OMI agreed to finance at no cost to the city. The agreement was renewed in FY20-21 with a five-year renewal setting the existing agreement expiration at September 30, 2026.

The base fee for last fiscal year (FY20-21) was \$822,937.47 and included \$87,000.00 and \$79,400.00 for the respective rebateable items of sludge hauling and chemical usage. The base fee also included \$9,318.00 for the continued management of the city's state-required Fats, Oils and Greases (FOG) program.

### FISCAL IMPACT SUMMARY:

The FY21-22 proposal negotiates a 3.50% operational base rate increase of \$22,652.68 for a total annual operational cost of \$845,590.00.

The requested base rate percentage increase is a negotiated, proposed increase.

Using the contractually calculated, default adjustment, verified using the contract Base Fee Adjustment Formula in Appendix E of the executed agreement, would result in a 4.61% increase. The 1.11% cost savings, achieved between the contractually calculated 4.61% increase and the proposed 3.50% increase, yields \$7,831.36 in negotiated cost savings.

The amendment proposes to maintain the amounts allocated for the rebateable items of sludge hauling and bulk chemical costs at \$87,000.00 and \$79,400.00 respectively. The proposal also maintains the provision for the Fats, Oils and Greases (FOG) tracking program at the existing rate of \$9,318.00.

The total proposed contract amount, including base fee operations, sludge hauling, chemicals, and FOG program management is \$845,590.00; a 2.75% overall increase from FY20-21.

Staff time is anticipated to remain consistent with previous years.

## ALTERNATIVES:

The original agreement language addresses compensation in Appendix E. Section E.1.2 and states:

“Changes in the Base Fee shall be negotiated annually, three (3) months prior to anniversary of the effective date thereof. Base Fee adjustments shall be negotiated using Labor & Benefits, Chemicals, Sludge Hauling, Repairs and Other Direct Costs as the basis of adjustment for base fee. Owner and OMI agree that good faith negotiations resulting in mutual Agreement is the preferred methodology to be used to determine changes in the Base Fee. In the event that Owner and OMI fail to agree, the Base Fee may be determined by the application of the Base Fee adjustment formula shown in Appendix E.3. Upon each contract year renegotiation, OMI shall continue to invoice Owner at the previous amount until the new contract year price is agreed upon. Upon written notice agreement between the parties as to the new contract year base fee, OMI shall issue an invoice retroactively adjusting the previous base fee amount.”

An annual agreement review presents an opportunity to negotiate an adjustment acceptable to both parties. If a compromise is not reached, the agreement provides a formula to assist the negotiation.

An excerpt from Appendix E. of the agreement is attached to this memorandum showing the Base Fee Adjustment Formula, which considers two major components: the Employment Cost Index and the Consumer Price Index.

The Bureau of Labor Statistics (BLS) defines the Employment Cost Index (ECI) by stating, “The Employment Cost Index (ECI) measures the change in the cost of labor, free from the influence of employment shifts among occupations and industries.” The BLS defines the Consumer Price Index (CPI) by stating, “The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.” and further states, “Not included in the CPI are the spending patterns of people living in rural nonmetropolitan areas, farm families, people in the Armed Forces, and those in institutions, such as prisons and mental hospitals.”

To condense; the ECI measures the change in the cost of labor; for example, the employment labor to operate the wastewater treatment plant, while the CPI measures the change in the cost of goods or materials, like bearings or belts, to operate and maintain the wastewater treatment plant. The ECI and CPI components are both used in an effort to reflect the most accurately calculated costs of the operations as well as to minimize the risk of market volatility and instability for both parties.

## ALTERNATIVES TO CALCULATION METHODOLOGY:

1. Negotiate each year independently and remove the Adjusted Base Fee (ABF) Formula.
2. Continue using an Adjusted Base Fee (ABF) Formula approach if negotiations are unsuccessful and use alternative CPI and ECI data series. An alternative practice may include the continued use of an ABF formula with incorporation of a localized CPI. Choosing a CPI data series accurately representing the work is essential. Using the national index can be stabilizing as local area indexes often exhibit greater volatility than the national index, although long-term trends can remain similar. Use of the existing CPI formula in the agreement results in an increase of 4.61%.
  - a. Use of CPI-U for Dallas-Fort Worth-Arlington, TX results in an increase of 3.50%.
    - i. [https://www.bls.gov/regions/southwest/data/consumerpriceindexhistorical\\_dallasfortworth1967\\_table.pdf](https://www.bls.gov/regions/southwest/data/consumerpriceindexhistorical_dallasfortworth1967_table.pdf)
      1. Where C=751.437 in November 2020 and C<sub>0</sub>=749.002 in November 2019
  - b. Using Water and Sewerage Maintenance, U.S. City Average, results in a 4.90% increase.
    - i. <https://data.bls.gov/timeseries/CUUR0000SEHG01>
      1. Where C=592.998 in November 2020 and C<sub>0</sub>=574.691 in November 2019
3. Set a consistent adjustment value for each year.
  - a. Set “X%” adjustment each year regardless of CPI data.
  - b. Set a minimum of “X%” adjustment if negotiations are unsuccessful regardless of CPI data series values.

## ALTERNATIVE METHODOLOGY ADVANTAGES:

Alternative 1. provides the opportunity to negotiate a better rate than what may be calculated.

Alternative 2. provides for the use of DFW area or Water/Sewerage Maintenance specific CPI values.

Alternative 3. provides for a known cost amount to assist with budget projections each year.

## ALTERNATIVE METHODOLOGY DISADVANTAGES:

Alternative 1. does not provide a methodology for agreement if negotiations are unsuccessful.

Alternative 2. does not provide the same stability as a national index, although trends can be similar.

Alternative 3. does not provide flexibility for either party and requires the “X%” value to be negotiated.

**ALTERNATIVES TO PROPOSAL:**

The following alternatives are offered for consideration:

1. Do not recommend approval of the contract amendment with the proposed 2.75% operational base rate increase;
2. Postpone amendment approval and renegotiate the terms of the amendment.

**ADVANTAGES:**

Approval of the proposed agreement amendment provides access to global, industry expertise and allows the city to take advantage of bulk pricing discounts for chemical usage.

**DISADVANTAGES:**

Approval of the proposed agreement amendment provides for an overall 2.75% increase in the cost of daily operations and maintenance of the Stephenville Wastewater Treatment Plant.

**ATTACHMENTS:**

Attached is a copy of the proposed annual agreement amendment from Jacobs/CH2M OMI for FY2021-2022 for the continued daily operations and maintenance of the Stephenville Wastewater Treatment Plant. Also attached is a transmittal letter as well as the supporting calculations.

1. [WWTP Operations Amendment – Proposed](#)
2. [WWTP Operations Amendment – Transmittal Letter](#)
3. [WWTP Operations Amendment – Supporting Calculations](#)