



Council Agenda Report

From: Matt Thompson, Recycled Water Manager

Subject: Approval of Construction Management Services for the Recycled Water Distribution System

CEQA Determination: The City prepared an Initial Study and Mitigated Negative Declaration (IS/MND) for the Recycled Water Distribution System project and circulated it for public comment (State Clearinghouse #2018051033). The City certified the IS/MND and filed a Notice of Determination on August 24, 2018. This action is consistent with the previously certified IS/MND.

Date: February 6, 2024

Facts

1. The City is developing a recycled water system, to provide an alternative water supply for irrigation of parks, vineyards, and golf courses on the east side of the City. Recycled water will help preserve the City's potable water supplies and supplement the Paso Robles Groundwater Basin.
2. The City completed construction of tertiary treatment facilities at the Wastewater Treatment Plant in 2019. These facilities produce high-quality recycled water. In order to deliver the recycled water to users, the City has been planning and designing a Recycled Water Distribution System. The project includes installation of a large pumping station, over 4.5 miles of large diameter water pipeline across the northern part of the City, and a 900,000-gallon storage tank at the east end of the City, near Barney Schwartz Park.
3. In 2023, the City received State financing and significant grants (\$3.5 million and \$9.73 million) for construction of the Recycled Water Distribution System. The State's financing agreement requires the City to expend the funds in a timely manner.
4. In May 2023, City Council approved of major preparations for bidding and construction, including acquiring easements and land and extending a contract with the project's engineer of record, Carollo Engineers, to finalize the project plans and specifications.
5. The City advertised the Recycled Water Distribution System for construction bids on January 5, 2024. The public bid opening is scheduled for February 22, 2024. Staff intends to recommend award of the construction contract in March 2024.
6. Construction is planned to begin in Spring 2024 and will require approximately 31 months. The engineer's estimate of probable construction cost is \$23,800,000. For a project of this size and complexity, the City requires the services of a professional construction management team.
7. In 2022, the City received a \$3.5 million State grant (via County of San Luis Obispo) for construction of the Salinas River Segment of the Recycled Water Distribution System. The City solicited proposals from engineering firms known to provide construction management services for water-related infrastructure in this area. A committee of City staff independently reviewed the proposals and found Cannon Corporation of San Luis Obispo best met the selection criteria and was the best fit for the work. In November 2022, City Council approved hiring Cannon for the Salinas River Segment construction management work.

8. City Council subsequently awarded a construction contract to Mountain Cascade. Construction of the Salinas River Segment is now substantially complete. Construction was completed within budget and two months ahead of schedule.
9. Considering Cannon's good performance on the Salinas River Segment and staff's determination of Cannon's demonstrated competence and qualifications, and in reliance on the proposal process pursuant to which Cannon was selected, staff invited Cannon to submit a proposal for construction management services for the Recycled Water Distribution System. Cannon's proposal contains all the services needed to deliver a quality project on time and within budget. The scope of work includes assistance with bidding, conducting weekly construction progress meetings, inspecting the quality of the construction work, materials testing, preparing, and managing technical contract documents, mitigating the potential for change orders, schedule tracking, recording as-built information, closing out the project, and warranty period review.
10. Staff negotiated with Cannon to reduce their proposed fee. Cannon's final proposed scope of work and fee are attached (see Attachment 1). The proposed fee is \$1,998,550. Staff has determined that the proposed fee is fair and reasonable.
11. The State financing for this project includes an adequate line item for these construction management services. The cost of these services will be incorporated into the State financing.

Options

1. Take no action;
2. Authorize the City Manager, subject to legal counsel review, to enter into a professional services agreement with Cannon for construction management services for the Recycled Water Distribution System, or an amendment to Cannon's existing construction management services agreement, for an amount up to \$1,998,505; or
3. Provide alternative direction to staff.

Analysis and Conclusions

Professional construction management services are needed to ensure the Recycled Water Distribution System is built according to design, ensure the City receives a quality finished product, and minimize the potential for cost overruns and delays. Cannon has successfully managed several large construction projects for the City, including the Main West Water Tank (i.e., 21st Street Reservoir), the Airport Area Pipeline Improvements, and the Salinas River Segment of the Recycled Water Distribution System. Cannon demonstrated excellent performance on the Salinas River Segment, which included some of the most difficult to construct components of the Recycled Water Distribution System. The project was completed within budget and well ahead of schedule. Cannon has a well thought strategy/approach to address the unique challenges of the Recycled Water Distribution System. Cannon staff are already established locally and are able to provide flexible staffing, and Cannon was competitively procured by the City to provide construction management services on the Salinas River Segment, a portion of the Recycled Water Distribution System. Cannon is an excellent fit for this additional construction management work on the Recycled Water Distribution System. Cannon has the demonstrated competence and qualifications to complete this work. Cannon's fee amount is fair and reasonable, and appropriate for the scope of work.

Fiscal Impact

The cost of the proposed construction management services will be incorporated into the State Revolving Fund (SRF) loan for the Recycled Water Distribution System. The SRF loan includes a \$9,730,000 grant in combination with a 2.6% annual interest loan with a 30-year payback period. With these proposed costs and the upcoming construction costs, this will result in an annual debt payment (principal and interest) of approximately \$1,070,000 per year. The first debt payment will not be due until 2027, which is one year

after completion of construction. Financial projections for the next five years indicate the Sewer Fund can take on this additional debt without affecting the Sewer Fund's ability to pay its other debts or other critical expenses. Recycled water revenues will be used to pay this expense and should be sufficient to cover the entire debt payment and operation and maintenance expenses for the recycled water program within approximately five years.

CEQA

The City has fulfilled the requirements of the California Environmental Quality Act for the Recycled Water Distribution System project. The City prepared an Initial Study and Mitigated Negative Declaration (IS/MND) and circulated it for public comment (State Clearinghouse #2018051033). The City certified the IS/MND and filed a Notice of Determination on August 24, 2018. This action is consistent with the previously certified IS/MND.

Recommendation (Option 2)

Approve Resolution 24-XXX, authorizing the City Manager, subject to legal counsel review, to enter into a professional services agreement with Cannon or an amendment to their existing agreement, for an amount up to \$1,998,505, for construction management services for the Recycled Water Distribution System.

Attachments

1. Cannon's Final Proposal for Construction Management Services dated January 18, 2024
2. Resolution 24-XXX – Authorizing Engagement of Cannon Corporation