

REGIONAL MUNICIPALITY OF OTTAWA-CARLETON  
MUNICIPALITÉ RÉGIONALE D'OTTAWA-CARLETON

REPORT  
RAPPORT

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Our File/N/Réf. 31-02-96-0210-T  
Your File/V/Réf.

DATE 18 September 1996

TO/DEST. Co-ordinator  
Corporate Services and Economic Development Committee

FROM/EXP. Environment and Transportation Commissioner

SUBJECT/OBJET **WATER ENVIRONMENT PROTECTION DIVISION  
PRIVATE SECTOR INVOLVEMENT OPPORTUNITIES  
EVALUATION PROCESS**

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### **DEPARTMENTAL RECOMMENDATION**

**That the Corporate Services and Economic Development Committee recommend Council approve the evaluation process to be followed in assessing and recommending an appropriate operator, whether public or private, for each of the six business units within the Water Environment Protection Division.**

### **BACKGROUND**

On 10 July 1996, Council approved a set of principles to govern a potential public-private partnership with the Water Environment Protection Division (WEPD). One of these principles established the requirement for the evaluation process to be approved by Council. On 10 July 1996, Council also approved the appointment of Raftelis Environmental Consulting Group, Inc. (RECG), to assist staff in the Private Sector Involvement Opportunities project.

### **DISCUSSION**

A draft Evaluation Process report was prepared by RECG based on the governing principles and its own experience in managing public-private partnerships projects for other communities, including the Miami Conservancy District in Ohio, the City of Charlotte in North Carolina and the City of Jersey City in New Jersey. Discussions were also held with RMOC staff and Regional Councillors.

The three bargaining units represented within WEPD, eleven private sector proponents and the five external members of the Peer Review Committee were invited to comment on the draft Evaluation Process report. The Peer Review Committee provided verbal comments supporting the proposed evaluation process and written comments were received from seven of the private sector proponents and all three bargaining units.

The private sector comments highlighted the need to clarify some points such as budget protocol and vested obligations, and suggested to revisit some of the governing principles. While there was one isolated comment on potential conflict of interest for Regional staff, most parties agreed that the evaluation process was fair and transparent.

The comments from the bargaining units focused in general on the other alternatives available for achieving cost effectiveness, the high cost associated with this process and the need to consider human resource issues. The CUPE 503 Bargaining Unit requested to have formal representation in the process.

Where clarification was required, amendments were made to the attached evaluation process report (attached at Annex B). Comments are also addressed in the RECG letter dated 27 September 1996 attached at Annex A.

#### PROJECT COST AND SCHEDULE

The overall objective in assessing the private sector involvement opportunities within WEPD has always been to determine the most cost effective means of delivering the services. While this overall objective will be the key consideration in the evaluation of the appropriate operator, it is also used as a key consideration in the overall procurement process. Accordingly, the recommended evaluation process has been developed with a view to also minimize the associated costs.

Initially, \$200,000 had been budgeted for this project to cover the external assistance required in the development of the Request for Proposal. At that time, it was anticipated that most of the remaining work would have been done with internal resources. The approach has since been modified based on the comments received by the private sector for additional independent reviews, resulting in additional cost for private sector consultation and independent consulting expertise.

In addition, certain costs were always anticipated to be incurred as part of the process of seeking a potential private sector partner. Confirmation of the need to undertake certain works, as well as the level of details required for these works, was also provided by RECG based on its extensive experience in this field. These requirements include a maintenance baseline assessment, human resources arbitration costs separate than the vested obligations as well as potential final contract negotiations.

After a preliminary review of these costs, it is estimated that the overall project will cost \$1.1 million. Of the additional costs identified by RECG for increasing the level of review and procedures beyond those proposed in the attached evaluation process report, only the costs of preparing this evaluation process report are recommended. It is however the Department's recommendation to absorb the report preparation and consultation costs within the existing contract authority.

The costs for the public-private partnership opportunities project will be confirmed after Council approval of the evaluation process and will be presented to Council during the capital budget process.

The various milestones of this project have all been met in accordance with the schedule previously presented to Council. The schedule included in the proposed evaluation process report continues to be consistent with the timeframe contemplated in previous Council decisions.

### CONSULTATION

All private sector parties who have actively expressed interest in the WEPD public-private partnership process have been given an opportunity to provide feedback on the proposed evaluation process. The bargaining units have also used this consultation opportunity to provide their comments.

### FINANCIAL IMPLICATIONS

The recommended evaluation process has been developed with a view to minimize the overall time and cost of this project while ensuring a fair and transparent process.

*Approved by  
M.J.E. Sheflin, P.Eng.*

Attach. ( 2 )

September 27, 1996

Ms. Nancy B. Schepers, P.Eng.  
Director, Water Environment Protection Division  
Environmental and Transportation Department  
Regional Municipality of Ottawa-Carleton  
800 Green Creek Drive  
Gloucester, Ontario K1J 1A6

Dear Ms. Schepers:

As you are aware, we have been preparing our recommendations for a process to be followed to evaluate and select a preferred operator for the services provided by the Water Environment Protection Division ("WEPD"). The attached report documents this process and is submitted for distribution to the Corporate Services and Economic Development Committee and to Council for approval. We have benefited from review and comments on a draft of this document by potential private contractors, union representatives, and RMOC staff.

As stated in the Governing Principles, a major goal is to ensure that the process is objective, transparent, and fair. Another key objective is to ensure that the process recognizes certain agreements and compromises between labor and management through collective bargaining. It was important to get reactions from private contractors who might be bidding on the project as well as labor unions whose employees will be affected by the results of the process. To that end, written comments were received from seven private contractors, as well as three representatives of labor unions: Ottawa-Carleton Public Employees Union, Local 503 and Local 2187 ("CUPE 503" and "CUPE 2178"); and the Civic Institute of Professional Personnel ("CIPP").

In general, the comments received from the private sector and labor unions were constructive and demonstrated thoughtful review and appreciation for the importance of establishing appropriate guidelines and procedures for the evaluation process. We were delighted to observe general "buy-in" to the process by those reviewing the draft report. We have attempted to be responsive, however, to any comments and have modified our report, where appropriate, to address these comments. Many of the comments concerned specific information and procedures that we had intended to address in the request for qualifications ("RFQ") and request for proposals ("RFP") documents, and would not be appropriate to include in this report. Instead, we have added language within this report to indicate where this additional information will be addressed during the evaluation process.

The comments received from the private contractors, and our responses to these comments, are summarized below:

1. *In-House Budget Protocols and Contractor Cost Proposal Guidelines* - Several comments addressed specific concerns about budget protocols related to the preparation of the “in-house budget” and various issues related to private contractor cost proposals:
  - Provisions for a transparent allocation of indirect and overhead costs to the “in-house budget.”
  - Adequate clarification and definition of “vested obligations,” “pass-through costs,” and other terms as they pertain to preparing the private contractor cost proposals.
  - Adequate disclosure of assumptions or conditions leading to potential “in-house” cost savings.
  - Adequate definitions of budgeted operating expenses in the six business units.
  - A clear format for submitting cost and/or budget information for each business unit.

While all of these concerns will be addressed within the budget protocols and cost proposal guidelines provided in the RFP document, some of these concerns also stress the importance of clearly assessing human resource issues. Procedures will be established and defined for preparation of the “in-house budget” and private contractor cost proposals. Costs to be addressed, including pass-throughs, maintenance cost cut-offs, and capital costs, will be clearly defined. A form will be developed to provide a standard format for identifying specific costs associated with each business unit. In addition, the short-listed firms will have an opportunity to comment on the draft RFP document which will contain the budget protocols and cost proposal guidelines.

2. *Involvement of the IWG* - One of the private contractors indicated that the proposed role of the IWG was inconsistent with one of the Governing Principles and may create a conflict of interest because of participation by certain IWG members in both the development of the “in-house budget” and in the evaluation process. Our interpretation of Governing Principle No. 16 is that the intent is to prevent conflicts of interest, not to prevent input from RMO staff to ensure that the consultants and the Evaluation Committee have the best information possible to make the most informed recommendations. As a practical matter, it is not feasible to completely segregate the budget preparation process, since all WEPD business units will be under competition and the RMO and WEPD staff are key to ensuring that all technical issues related to private contractor proposals are addressed.

To prevent potential or perceived conflicts of interest, the timing and procedures for the budget preparation and evaluation process have been carefully structured to ensure that the “in-house budget” has been finalized before the evaluation of proposals begins. In addition, the technical evaluation process will be completed before cost proposals are considered. Although members of the IWG will be involved in both processes, their involvement will be limited to providing input and support for the Consultants and Evaluation Committee, and they will not have a direct role in the final decision making

process. Having staff provide technical input related to private contractor submittals is a common practice of most wastewater and water competitions in North America.

3. *Scheduling and Procedures* - Several comments were made related to scheduling and procedures to be followed during the evaluation process:

- Reimbursement of external bid costs to unsuccessful private contractors.
- More time for the preparation of proposal documents.
- No limitation on the number of qualified firms invited to submit proposals.
- Having an opportunity to comment on the draft RFQ.
- Having an opportunity to make a presentation in response to the RFQ.
- Distribution of the evaluation criteria and evaluation matrices prior to issuing the RFQ.

In our experience, most of these comments involve changes to the evaluation process that do not conform with standard industry practice, do not add significantly to the objectivity or integrity of the evaluation process, and/or will increase the cost and time required to complete the process. For these reasons, we do not recommend adopting these suggestions. In addition, we believe that adequate time for the preparation of proposal documents is provided since short-listed private contractors will have four months from the time they receive the draft RFP for their review.

4. *Extension of Contract Duration* - Several private contractors indicated that an operations contract of longer duration would provide more incentive for private contracts to assume maintenance risks and offers additional opportunities for savings. Although the Governing Principles specify a five-year contract, it may be possible to provide an option for renewal of the contract if it is deemed to be in the best interest of the RMOC and is agreeable to the private contractor. This issue will be considered during the development of the RFP document and draft Service Agreement.

Additional comments were received from representatives of the three unions listed above. Most of the concerns or issues raised by the union representatives related to providing a more direct role for the unions in the evaluation process, including representation on the IWG and the right to appoint a representative on the Evaluation Committee. CUPE 503 agreed with the profile of the external appointees to the Evaluation Committee, but wanted the authority to make one appointee that fits this profile. We believe that CUPE 503 objectives can be achieved by having RMOC make the appointment. In addition, RMOC identification of the appointee ensures independence and objectivity for the evaluation process.

Another comment from union representatives questioned the cost and benefits of the privatization evaluation process and suggested that it may be more cost-effective to pursue optimization strategies under continued public operation. Our experience indicates that although optimization will likely achieve cost savings, in most cases additional savings are achieved through competition. In addition, Council has already provided a clear directive to proceed with the evaluation of privatization opportunities.

In summary, many of the comments received from the potential private contractors and from union representatives did not indicate the need for substantive changes to the evaluation process report. We have modified and expanded certain language in the report to reflect private contractor and labor input. Many of the comments and suggestions raised valid issues and concerns that will be addressed in the RFP, however, as we had originally intended. The short-listed private contractors and labor will be given the opportunity to respond to our proposed treatment of these issues in the draft RFP.

Given our experience in similar competitions and input received from labor, private contractors, and RMOC staff, we believe that the evaluation process outlined in the attached report provides a fair and transparent methodology that is consistent with the intent of the Governing Principles. Furthermore, the comments received indicate a basic acceptance of the process by the private sector.

We look forward to the opportunity to present the Evaluation Process Report to the Corporate Services and Economic Development Committee and to Council approval of the report so that we can move forward with this important project for the RMOC.

Very truly yours,

George A. Raftelis  
President

Attachment

**REGIONAL MUNICIPALITY OF OTTAWA-CARLETON**  
**EVALUATION PROCESS REPORT**

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**Regional Municipality of Ottawa-Carleton**  
**Evaluation Process Report**

## **I. BACKGROUND AND OBJECTIVES**

In July 1996, Regional Council approved the Governing Principles for the potential public-private partnership process within the WEPD. This process provides a mechanism to evaluate the most cost-effective and beneficial means of providing wastewater treatment services for the Region, whether through continued public operation or through privatization. This process is also intended to provide incentive to WEPD staff to review the cost-effectiveness of current operations. In addition, Council directed WEPD staff to prepare a report which documents the process and procedures to be used in evaluating and selecting a potential operator in accordance with the principles set forth. The following report was prepared by Raftelis Environmental Consulting Group, Inc. ("RECG"), the consultants engaged to assist RMOC in evaluating the opportunities for private sector involvement as a possible alternative to continued RMOC operations. The processes, guidelines, and procedures outlined in this report (the "Evaluation Process") include an organizational approach and chart, work approach, and schedule of meetings and significant milestones.

The Evaluation Process was developed by RECG after review of background information and the Governing Principles. RECG based its recommendations largely upon its experience in managing projects for other communities and utilities where similar issues and concerns were identified. In particular, the Evaluation Process described in this report was developed to meet the following objectives:

1. To comply with the amended Governing Principles, as adopted by Council.
2. To comply with all applicable laws and regulations, including any requirements imposed by the collective bargaining agreements with the unions representing employees at WEPD.
3. To provide a process that adds value and provides maximum benefit to RMOC and the public through the timely completion of each task identified in the work plan.
4. To maintain high standards of independence, fairness, public accountability and transparency in the procurement process.
5. To provide for necessary input from RMOC staff, the potential private contractors, and the labor unions, and to gain necessary approvals from a proposed Evaluation Committee and Council.
6. To minimize costs, time, and other resources for the Evaluation Process without compromising the results.

The most important components of the Evaluation Process are the organizational structure and the work plan. The organizational structure describes and defines the roles and responsibilities of all participants in the evaluation and selection process including the Consultants, WEPD and other RMOC staff, the Administrative Coordinator, the Evaluation Committee, the Corporate Services and Economic Development Committee, and Council. In addition, the private sector and labor have been given an opportunity to provide input into the Evaluation Process. The work plan identifies the major tasks to be completed in the evaluation and selection process, the sequence of tasks required to maintain the integrity of the process, important milestones and approvals required to complete each task or phase, and a projection of the timing for the completion of each phase.

## **II. PROJECT ORGANIZATION AND STRUCTURE**

### ***A. Overview of Project Organization Approach***

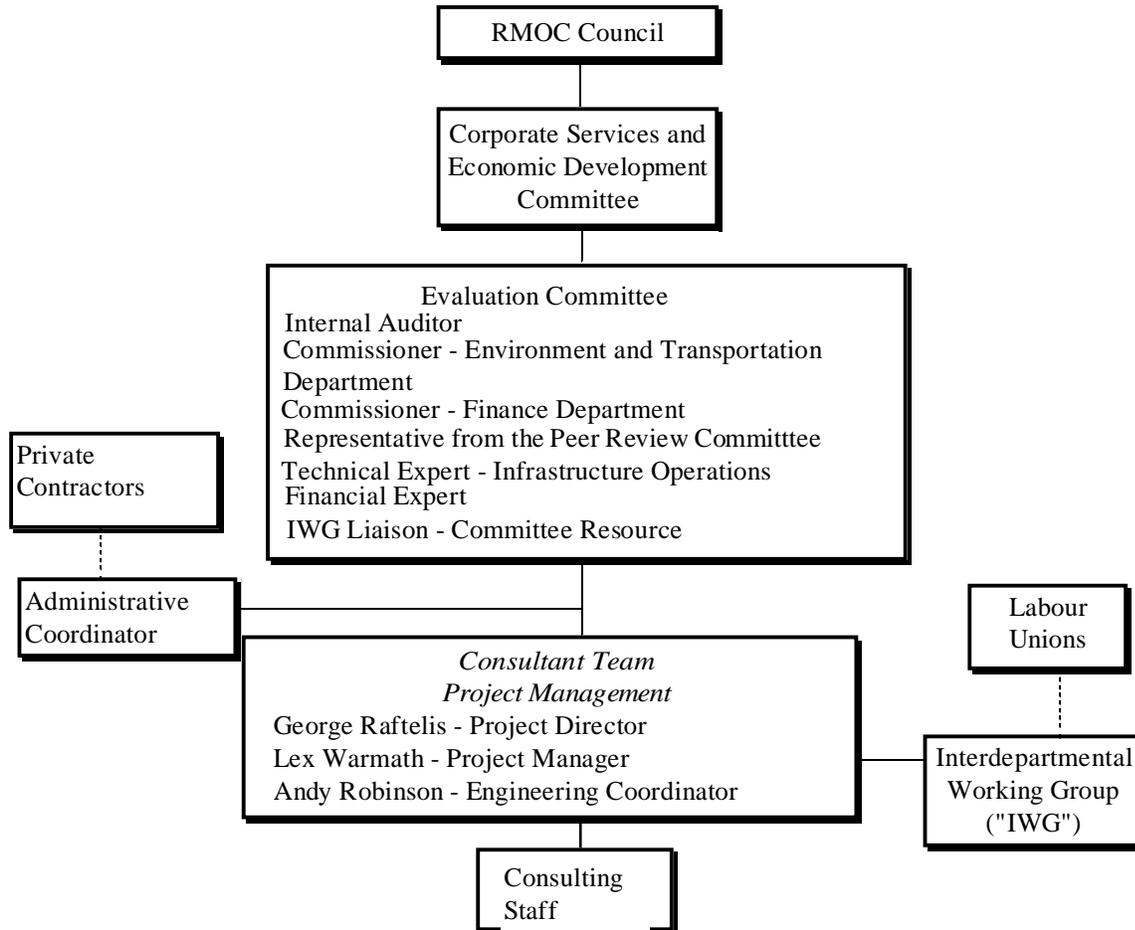
As depicted in Figure 1, the organizational chart identifies the committees, teams, and individuals that will have responsibility for managing and participating during the Evaluation Process. Key features of the organizational roles and relationships include:

- An Evaluation Committee comprised of individuals with the background, knowledge, and experience to objectively assess the potential benefits and impact of private operation as compared to continued public operation. These individuals will be internal and external to RMOC and will possess a strong business focus.
- Highly-experienced independent consultants managing each step of the process and developing objective recommendations.
- The Corporate Services and Economic Development Committee and Council involved in approving the Evaluation Process and the ultimate recommendations.
- One point of contact within RMOC for ensuring the administrative and logistical integrity of the Evaluation Process.
- Use of the Interdepartmental Working Group (“IWG”) to provide “hands-on” input regarding statements of qualifications and technical proposals submitted by the private contractors.
- A mechanism for private contractors and labor unions to have input into the process by commenting on this Evaluation Process Report and on the Request for Proposal (“RFP”) document before they are finalized.

## ***B. Description of Organizational Structure***

The roles and responsibilities of each organizational unit are defined below, including additional discussion to help clarify the rationale behind the proposed structure.

Figure 1  
*Organizational Chart*



As shown in Figure 1, the Evaluation Process will be organized into four working components consisting of an Evaluation Committee, the Consultant Team, the IWG, and an Administrative Coordinator. As described in more detail below, these organizational units will collectively address the development of all procurement documents (RFQ and RFP); the review of the in-house budget and related cost analyses (as defined in Section II.C); the evaluation of qualification submittals and recommendations for a short-list of private contractors; the evaluation and ranking of proposals; and recommendations for a preferred private contractor or continued public operation of one or more of the WEPD functions.

### *1. Administrative Coordinator*

The Administrative Coordinator will function as the Single Point of Contact for all administrative and logistical coordination during the entire procurement process. This position will be responsible for distributing all procurement documents and related information (addenda, clarifications etc.) to the appropriate private contractors; for receiving all qualifications submittals and proposals from private contractors; for coordinating meeting logistics; and for keeping appropriate records and logs to document the timeliness of all receipts and transmittals. This position will also serve as the Single Point of Contact for all communication between the private sector and the teams, committees, and groups participating in the procurement process. In addition, all meetings, tours, visits, presentations, and access to facilities will be coordinated by this person(s). We recommend that this position be filled by the office of the Regional Clerk. One alternative considered was for the Consultant to assume the responsibilities of the Administrative Coordinator. This alternative is discussed in more detail in Section IV but was not recommended since it was not cost effective and it added limited value to the process.

Specific procedures and time frames will be identified in the Request for Qualifications (“RFQ”) and Request for Proposal (“RFP”) to govern all communications between the private sector and the Administrative Coordinator. As prescribed by the Governing Principles, these guidelines and deadlines will be an integral part of a code of conduct to prohibit lobbying, conflict, and collusion in the procurement process.

### *2. Evaluation Committee*

The Evaluation Committee (“EC”) will have responsibility to approve all procurement documents and private contractor evaluations and rankings; to review and approve the recommended short-listed firms to receive an RFP; to review and approve the in-house budget and related cost analyses; and to develop the final recommendation for a preferred private contractor or for continued operation by WEPD staff.

The proposed composition of the EC consists of a balance between members of which are internal and external to the RMOC. The internal members provide substantial institutional knowledge of the RMOC and background on wastewater operations, and would not be affected by the outcome of the Evaluation Process. The external members were chosen to provide an additional level of technical and financial expertise for evaluating the Consultants’ recommendations regarding privatization submittals and the in-house budget. These individuals would be expected to possess a strong business focus and bring additional objectivity to the process. All members of the EC will be charged with the responsibility to ensure that the Evaluation Process remains consistent with the Governing Principles adopted by Council, and that the final recommendation provides the best value to the RMOC and most cost effective service to wastewater customers. The proposed members of the EC, and their roles, are described below.

- Commissioner of the Environment and Transportation Department — to provide institutional knowledge related to wastewater organizational, management, and operational issues. Ultimately the Commissioner is accountable to the Chief Administrative Officer and Council for ensuring that the most cost effective service is provided to the public.
- Commissioner of the Finance Department — to provide additional RMOC financial insights for the evaluation of the in-house budget and to evaluate whether private sector cost proposals and the in-house budget are compared on a common basis.
- Internal Auditor — consistent with his responsibilities within RMOC, to monitor the procurement and selection process to ensure conformity with the Governing Principles.
- Technical expert in management and operations of infrastructure — to provide additional expertise in assessing technical aspects of proposals. This person could be a manager of operations within the wastewater industry or a manager of public utilities.
- Financial expert — to provide an independent assessment of the financial benefits and impacts of privatization, the development of financial criteria, the evaluation of the in-house budget, and the comparison of cost proposals from the private sector. This person would likely have a background in finance, banking, or accounting and would have no bias toward either public or private operations.
- Member of the Peer Review Committee — to provide a continuity of understanding about the Evaluation Process from the Peer Review Committee which was formed to provide objective input regarding the Governing Principles and the evaluation and selection process. It is anticipated that the Peer Review Committee would be dissolved after the Evaluation Process is approved and the EC is finalized.

In addition, the IWG would provide technical input to the EC throughout the Evaluation Process. Input from the IWG would be coordinated and managed by the Director of the WEPD who would serve as the IWG Liaison.

### *3. Consultant Team*

The Consultant Team (“Consultants”) will consist of staff from RECG and Robinson Consultants (an Ottawa-based subcontractor of RECG) as approved by Council. The project will be directed by Mr. George Raftelis, President of RECG. Mr. Raftelis has been a leader in developing privatization and competition processes for local government utilities across North America. He will be assisted by a team of senior level consultants that have been involved in many similar projects and have extensive expertise in evaluating privatization opportunities.

The Consultants will direct the procurement process, including overall management and coordination of activities and meetings. Throughout the process, the Consultants will work closely with the EC, the Administrative Coordinator, and the IWG.

The Consultants will be responsible for the following activities and tasks:

- (1) Managing the Evaluation Process to identify and recommend a “preferred operator” for the business units identified within the WEPD.
- (2) Developing all documents related to the procurement process including the RFQ, RFP, and related evaluation matrices.
- (3) Developing protocols for the preparation of the in-house budget, reviewing and evaluating the in-house budget prepared by staff, and evaluating additional cost analyses necessary to ascertain the true operating costs for each business units under public and private management.
- (4) Providing direct support to the EC and participating in all relevant presentations to Committee and Council.

#### *4. Interdepartmental Working Group*

The IWG is an existing working group with representatives of the Legal, Human Resources, Finance, and Environment and Transportation departments. The IWG was organized to establish and review principles that would govern a public-private partnership for WEPD, and to develop background papers on issues relevant to a public-private partnership. This group includes representatives from several branches within WEPD to assure adequate technical and operational expertise.

The IWG consists of individuals that can provide valuable insights as to how contractor proposals will impact specific RMOC functional and technical areas. For example, WEPD personnel on the IWG can react to contractor approaches related to predictive, preventive, and corrective maintenance.

The IWG will be responsible for providing relevant input to the Consultants in all relevant phases of the process. The IWG will provide input in evaluating Statements of Qualification (“SOQs”) and Proposals submitted by private contractors. Furthermore, the IWG will be responsible for coordinating staff activities related to the Evaluation Process.

#### *5. Regional Council and Corporate Services and Economic Development Committee*

The Corporate Services and Economic Development Committee and the Regional Council will have two primary tasks related to the Evaluation Process. The first is to approve the work plan defining the Evaluation Process and the organizational structure described in this report. Of particular importance is the structure and constituency of the Evaluation Committee. Once the Evaluation Process is approved, Committee and Council’s involvement may include discussions

with the private sector proponents up until the RFQ is issued, sometime in January 1997. Concurrent with the issuance of the RFQ, the code of conduct will become effective and all communication between potential bidders and the RMOC staff and Council will be through the Administrative Coordinator, as prescribed in the procedures contained in the RFQ. Committee and Council will continue to be kept abreast of the progress of the process through information reports. The next report requiring Committee and Council approval will be the final recommendation of the “preferred operator” at the end of the process.

### ***C. Preparation of In-House Budget***

Because of its familiarity with the operating systems and the budgeting process, WEPD management will assume the primary responsibility for the initial preparation of the in-house budget. For the purpose of this discussion, the term “in-house budget” will include direct O&M costs for each functional area or business unit of WEPD operations that potentially could be contracted out. These costs will be projected for the proposed term of the contract operations agreement, and will include fixed, variable, and pass-through costs.

Other related cost analyses will be prepared by Regional staff, with significant input and direction from the Consultants, to evaluate additional costs that may be incurred by RMOC and/or costs that could be avoided by RMOC as a result of privatization, including:

- Transition costs incurred by RMOC for orientation and start-up of private operations;
- The portion of indirect or overhead costs that will “be avoided” or that will no longer be paid by RMOC, in the event of privatization of each business unit.
- The direct O&M cost for each business unit of WEPD that will not be included in the RFP, such as by-law enforcement and policy development.
- Contract monitoring and administration costs; and
- Any other costs that might reasonably be expected to be incurred by or passed-through to the WEPD under contract operations.

Special procedures will be followed to maintain the integrity of the budget preparation process and the objectivity of the evaluation process:

- After reviewing existing budget documents and the budget preparation process, the Consultant will develop budget protocols for WEPD staff to follow in preparing the in-house budget. These protocols will include requirements for documenting indirect and overhead costs allocated to each functional area, requirements for documenting and substantiating projected cost savings and productivity improvements, identification of capital costs that will continue to be passed-through to the WEPD under an operations contract, and identification of other specific cost components as specified by the Consultants.

- The budget protocols will also identify and define all costs to be included in the cost proposals from private contractors, including maintenance cut-offs, pass-through costs, capital costs, etc.
- The budget protocols will be documented in the RFP in order to provide the short-listed private contractors with an opportunity to comment on the protocols and so that the private contractors can understand the costs that will be considered in the Region's in-house budget.
- Submission of the in-house budget on or before the date that proposals are due from the private sector. Once finalized, the in-house budget and related cost analyses will be submitted to the Regional Clerk to be "held in trust" and will not be subject to adjustment by staff during the proposal review process. In this way, the in-house budget and related cost analyses will reflect the best estimate of the true costs of operating each business unit of the WEPD being considered for privatization
- All financial information, including cost proposals, the in-house budget and related cost analyses, will receive careful scrutiny by the Consultants, and will remain confidential until technical proposals have been evaluated. Financial information will then be assessed and integrated with the technical proposals and will remain confidential to the public until a recommendation regarding the preferred operator has been submitted to Committee and Council.
- The Evaluation Process will be managed by the Consultants, and will be subject to the review and approval of the EC.

#### ***D. Discussion of an Expert Review Team***

In developing proposed guidelines for the Evaluation Process, staff were directed by Council to consider the option of defining a role for an Expert Review Team in the Evaluation Process. If an Expert Review Team is to exist, our recommendation is that the role of an Expert Review Team should be that of an advisory group to the Consultants, the IWG, and the EC, as defined by the following terms of reference:

- Perform a high-level review of all procurement documents, evaluation criteria, and evaluation matrices.
- Review all submittals prepared by private contractors.
- Review all summary reports and recommendations prepared by the Consultants and the IWG prior to presentation to the EC.
- Provide input or suggestions for improving the independence and objectivity of the process.

- The Expert Review Team would not formally approve any document or recommendation. Approval power will reside exclusively with the EC during the Evaluation Process, with Council approval of the final recommendation.

In order to provide beneficial input and advice, the Expert Review Team should include people who are knowledgeable about the privatization process, contract procurements, and have experience with maintenance and operations of the various business units being considered for contract operations. One or two members from the business community, with backgrounds in technical, financial, accounting, or legal areas, plus a representative from academia, might provide a balanced group that could improve objectivity. In order to streamline and facilitate the role of the Expert Review Team, this group would have to be limited to no more than three people. If the Expert Review Team were to assume the type of advisory role described above, the time commitment required by its members would be substantial. To review documents and attend at least five meetings with the Consultants and the IWG, we estimate that a minimum of 60 to 80 hours of time will be required per person. The review of documents and evaluation by an Expert Review Team will add to the duration of the project and will increase the cost of consultant time for additional meetings with the Expert Review Team.

Based upon previous experiences with similar procurement and evaluation processes, this additional layer of review is neither cost-effective nor necessary to provide a fair, unbiased, and objective procurement process. The proposed Evaluation Process has been carefully structured to provide for a fair and objective evaluation of private contractors and for assessing the potential impacts of private operations as compared to continued public operation. In addition, the EC has been structured to include experts in both infrastructure management and operations, and finance. An Expert Review Team would duplicate these functions

### **III. WORK PLAN AND SCHEDULE**

#### ***A. Overview of Project Work Plan***

The following discussion provides a summary of the main tasks, documents, and milestones for the Evaluation Process. These tasks, the work schedule, and the sequence of specific milestones, have been carefully structured to enhance the integrity and objectivity of the entire Evaluation Process. After receiving Council approval, the Evaluation Process is expected to take 16 months to complete.

The key features of the work plan for the Evaluation Process include:

- The plan allows for input by the potential private contractors. Already the private contractors have had an opportunity to review the Governing Principles and offer comments. Many of these comments have been taken into account in finalizing the Governing Principles and in preparing this report. Other key opportunities for the private contractors to have input include:

- ⇒ Submission of clarification questions after the RFQ is issued;
  - ⇒ Review and comment on the draft RFP;
  - ⇒ Submission of clarification questions after the RFP is issued; and
  - ⇒ A minimum of two due diligence visits to the plant and facilities by the short-listed firms.
- Labor unions will be given the opportunity to respond to the draft Evaluation Process Report and the draft RFP.
  - Private contractors will be given sufficient time to prepare their responses to RFQs and RFPs.
  - Private contractors will be allowed to review substantial data available to them regarding business units and visit the plant and related facilities.
  - To avoid potential conflicts of interest, the schedule is structured so that the in-house budget and related cost analyses must be completed prior to the beginning of the proposal evaluation process.
  - The Corporate Services and Economic Development Committee and Council will have ultimate approval responsibility for the final recommendation of either a private contractor or continued RMOC operation of one or more business units.

## ***B. Discussion of Work Plan Tasks***

### *Task 1 — Obtain Approval of the Evaluation Process Report*

The first task on the work plan is to obtain approval of the Evaluation Process Report from the Corporate Services and Economic Development Committee and Council. A draft report will have been submitted to the Peer Review Committee, to interested private contractors, and to labor union representatives for their comments and suggestions prior to being submitted to the Committee and Council. Final approval of the proposed Evaluation Process is an important milestone in the process since the members of the EC, as well as their roles and responsibilities, cannot be finalized without this approval. Any delay in the approval process will delay the following tasks and sequence of events accordingly.

### *Task 2 — Prepare RFQ Documents*

This task involves preparation of the RFQ document, including defining the evaluation criteria and developing the evaluation matrices to be used in scoring and ranking the private contractors. The RFQ will include a description of the evaluation criteria to be used for evaluating statements of qualifications and identifying the short-listed firms. It is anticipated that development of the RFQ and evaluation matrices will be an iterative process and that the RFQ will be finalized and ready to be issued at the end of January 1997.

*Task 3 — Prepare and Evaluate Statements of Qualification*

Private contractors will be given approximately six weeks to prepare their Statements of Qualification. If RFQs are issued at the end of January 1997, SOQs will be due by mid-March 1997. The review and evaluation process is expected to take approximately eight weeks. SOQs will be scored and ranked using the evaluation matrices previously prepared and approved by the EC. The results will be summarized in a report, including a recommendation of the firms to be short-listed. Once this report is formally approved and adopted by the EC, the short-listed firms will be notified. The projected schedule for the completion of this task and notification of the short-listed firms is the third week of May 1997.

*Task 4 — Prepare RFP Document*

Task 4 involves preparation of the RFP document. Preparation of this document, including a draft Service Agreement, will begin after the Evaluation Process has been finalized and approved. Once a complete draft of the RFP has been developed, further work on the RFP will be delayed until the short-listed firms have been identified. The draft RFP document will be submitted to the short-listed firms and to union representatives for their review and comments prior to being finalized and submitted to the EC for approval. The expected completion date for the RFP is approximately July 1997, with distribution at the end of July.

*Task 5 — Prepare the In-House Budget*

Sequentially, the next task in the process is the preparation of the in-house budget by WEPD management and related cost analyses by RMOC staff. As described earlier, in order to avoid potential conflicts of interest, the budget will be finalized and submitted to the Regional Clerk at the same time that the proposals are received. In this way, there will be no opportunity for WEPD management to amend the in-house budget to reflect any insights gained from reviewing proposals submitted by the short-listed firms.

*Task 6 — Prepare and Evaluate Proposals*

The final task is to receive, evaluate, and rank the proposals submitted. RFPs will be distributed at the end of July 1997. Site tours and access to additional technical information will take place during the month of August. Each proposer will be allowed a minimum of two site visits, which will be coordinated through the Administrative Coordinator, and will be prescribed in the RFP document. Technical and cost proposals will be due at the end of September 1997.

Once the proposals have been received, written clarification questions will be prepared and submitted to private contractors as necessary to address any issues or inconsistencies in proposal documents. These questions are structured not to allow the private contractors to amend or augment their proposals, only to clarify specific information. The final evaluation and ranking of proposals, and the comparison of cost proposals with the in-house budget, is expected to be completed by the end of November 1997.

A report will be prepared by the Consultants summarizing the results of this Evaluation Process, identifying the successful operator and the expected cost savings. This report will provide the basis for the final recommendation from the EC to the Corporate Services and Economic Development Committee and the full Council. Final submission of the summary report and recommendations to the CSEDC and Council is anticipated to be completed by the end of 1997.

#### **IV. COST CONSIDERATIONS IMPACTING THE EVALUATION PROCESS**

In July 1996, Council approved a budget of approximately \$301,000 to cover the cost for the scope of work identified at that time for the evaluation of privatization opportunities for the WEPD. Several of the tasks discussed in this report were not included in the original scope of work, which would add to the total cost for the project, including:

- Preparation of the Evaluation Process Report;
- Addition of the Expert Review Team as an integral part of the Evaluation Process; and
- Designating the Consultants as the Administrative Coordinator for the RMOC, with increased responsibilities for managing and coordinating the entire project.

These additional tasks, and their impact on the expected budget for the process, are discussed below.

##### *Preparation of Evaluation Process Report*

Cost for the preparation of this report is estimated to be between \$35,000 and \$40,000 for the following tasks:

- Preparation of Draft Report;
- Review and discussion with the IWG, senior RMOC staff, the Peer Review Committee, and various Council members;
- Submission of a revised draft to union representatives and private contractors;
- Meeting with the IWG staff to discuss and integrate comments from private contractors, the Peer Review Committee, and labor unions;
- Preparation of Final Draft Report;
- Attend meeting of Corporate Services and Economic Development Committee to respond to questions.

### *Participation by the Expert Review Team*

If review and oversight by an Expert Review Team is determined to be necessary, approximately \$20,000 for Consultants time will be added to the cost. This amount covers cost for time and expenses to meet with the Expert Review Team and to prepare materials and coordinate meetings. Other costs to RMOC include payments to Expert Review Team members for their time, as a per diem or honorarium. This cost is estimated to be approximately \$35,000 to \$45,000. As an alternative, a wastewater operational expert and a financial expert is included in the proposed EC recommended in this report at minimal additional cost.

### *Independent Single Point of Contact*

Finally, earlier in the process of defining the Terms of Reference for this project, a proposal was made to pass additional responsibility to the Consultants to assume the role of the Administrative Coordinator and act as the Single Point of Contact for the project. By passing all of the responsibilities identified for the Administrative Coordinator to the Consultants, including preparation and distribution of all documents, plus additional responsibilities to manage and organize all aspects of the procurement, the cost was estimated to be approximately \$80,000 in additional Consultants fees and expenses.

In summary, additional levels of review and procedures to increase objectivity and independence above those recommended in this report can add significantly to the total cost. If all three extra tasks discussed above were added to the project, total consultant and expert advisor fees, plus contingency (10%) and GST (7%), would be approximately \$500,000.

## **V. CONCLUSION**

The policy and procedure guidelines described in this Evaluation Process Report were developed to address the Governing Principles and the objectives and issues raised by the Council, RMOC staff, and private contractors. Overall, the primary goal is to provide a level playing field for the procurement process to encourage competition among the private contractors and to maximize the potential benefits to RMOC and the public. In addition, the process encourages WEPD to aggressively pursue opportunities to reduce costs and to demonstrate these potential cost savings through the in-house budget preparation process.

The structure and composition of the EC and the role of the Consultants provide strong assurance of an objective, fair, and transparent process. By avoiding the need for periodic review and approvals by the Committees or Council, significant benefits are achieved in terms of reduced costs and a condensed time frame. In summary, the Evaluation Process outlined in this report provides a results-oriented procedure for reaching a final recommendation, regardless of whether that recommendation is to continue to provide wastewater collection, treatment and related services through public operation or to contract out some or all of WEPD functions to a private contractor.