APPROVED
by the Board of Directors of
The Metropolitan Water District
of Southern California
at its meeting held

APR 11 1995

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EXECUTIVE SECRETARY

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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

March 28, 1995

To: Board of Directors (Finance and Insurance Committee--Action) (Water Problems Committee--Action)

From: General Manager

Subject: Selection of Implementation Contractors for Phase Four of Ultra-Low-Flush Toilet Distribution Program

Report

Program Phases One and Two

The Ultra-Low-Flush (ULF) Toilet Distribution Program (Program) commenced in 1992 with a formal Request for Proposal (RFP) addressed to water conservation consultants. Following an extensive evaluation of the proposals and the proposers, Metropolitan selected CTSI Corporation (CTSI) as the implementation contractor for Phases One and Two of what was deemed to be a Pilot Program. The value of the agreement between Metropolitan and CTSI at the Program inception in October 1992 was $5 million.

Because of Member Agency requests for participation in the Program, Phases One and Two were ultimately increased in magnitude to a total cost of $17.2 million (approximately 50 percent of which was incurred by Metropolitan) for a total of 150,000 ULF toilets. By the conclusion of Phase Two, many marketing and distribution avenues had been explored by CTSI and the per ULF toilet cost of the Program had declined significantly. The Program was considered mature when Phase Two concluded on June 30, 1994.

Program Phase Three

In June 1994, your Board authorized the continuation of the Program with CTSI as the implementation contractor through Phase Three. At that time, management committed that Phase Four, if any, would be subject to a new RFP process wherein potential implementation contractors would be solicited and evaluated. Phase Three, the subject of two new agreements with CTSI totaling $25.3 million in value, commenced on July 1, 1994 and is scheduled to conclude on September 30, 1995. Distributions of 15,000 ULF toilets per month were planned for a total of 225,000 ULF toilets. Current projections indicate, however, that member agency demand exists for only 140,000 ULF toilets during Phase Three, for total cost of $15.7 million approximately 50 percent of which will be paid by Metropolitan.

For Program Phases One through Three, at a total cost of $32.9 million, (approximately $16.5 million for Metropolitan) it is now estimated that approximately 290,000 ULF toilets will be distributed to residential units (both multifamily and single family). This is estimated to yield a savings of 11,700 acre-feet per year. Over the economic life of the ULF toilets, the cost per acre-foot is $244 to Metropolitan and the participating agencies, with Metropolitan paying $122 per acre-foot levelized cost per year.

Program Phase Four

Program Phase Four is scheduled to commence on October 1, 1995 for a 24-month period consisting of an initial 12-month contract period, renewable for a second 12-month contract period. The volume of ULF toilet distributions during the first 12-month period is programmed at 10,000 per month, or a total of 120,000 units.

Staff has considered a range of structural options for implementation of Phase Four, each of which was investigated as to probable implementation costs, Metropolitan administrative requirements, opportunities for innovation and diversity, and likelihood of success. That available range of options was narrowed to the three most feasible as follows:

Option A: Single Implementation Contractor (Existing Program)

Option B: Dual Implementation Contractors (One contractor for ULF toilet purchase and warehousing; one contractor for ULF toilet distribution)

Option C: Multi-Implementation Contractors (One contractor for ULF toilet purchase and warehousing; multiple contractors for distribution, each assigned geographic territories coterminous with member agency service area boundaries)

Options B and C represent departures from the existing Program in that they involve participation by more contractors and impose a greater administrative responsibility upon Metropolitan staff and management. They also represent opportunities for greater diversity of thought and creativity in Program implementation.

A more complete description of each option, together with a discussion of the advantages and disadvantages of each, is included as Attachment A.

An investigation of the economics of each option indicates that as additional implementation contractors are added to the Program team, unit costs increase as the economies of scale diminish. The results of the cost comparison are as follows:

Program Cost Per ULF Toilet

	Purchasing & Warehousing[1]	Distribution	MWD Contract Management	Total Cost
Option A	$74.90	$44.60	$2.50	$122.00
Option B	$75.46	$45.60	$3.42	$124.48
Option C	$76.10	$50.60	$5.25	$131.95

[1] Purchasing/Warehousing cost includes sales tax, contractor procurement cost, and contractor warehousing and transportation costs.

Option A represents the most cost-effective and manageable approach to implementing Program Phase Four. Not only is it the least costly method, it also requires the least amount of Program management by Metropolitan. Option A would result in the maximum contractor accountability and economies of scale while minimizing the demand upon Metropolitan staff and management. Also, it provides the most streamlined and accountable line of coordination between purchasing, deliveries, and actual member agency demand.

Recommendation

It is recommended that your Board approve Option A as the structural form for Program Phase Four, wherein a single RFP solicitation and selection would be made for a single toilet purchase and a toilet distribution marketing contractor. Upon approval, an RFP would be issued by April 28; selection by June 30; and a contractor in place by September 1.

John R. Wodraska
General Manager

By
Jay W. Malinowski
Director, Public Affairs

MDP:cl

Concur:

John R. Wodraska
General Manager

ATACHMENT A

Option A - Single Contractor Option (Existing Program)

Description

Single implementation contractor for project development and marketing, CBO oversight and payment, agency contact, ULFT purchase and warehousing, ULFT trucking, ULFT distribution, used toilet recycling, customer relations, and overall Program management.

Advantages/Disadvantages

Advantages

- Simplist contract management and Program control by Met requires fewest Met staff to oversee; lowest management cost; fewest demands upon Met management; simplifies reporting.

- Single "point-of-contact" for Met, member agencies, and customers.

- Enables closest coordination between ULFT purchasing/inventory and marketing/distribution demands; permits "just in time" ordering and delivery; no excess inventory of ULFTs.

- Lowest Program marketing and management cost; economies of scale minimize contractor costs to develop marketing plans unique to each agency's demographics and to manage the Program; Program benefits from the highest volumes with all projects combined under a "single roof."

- Lowest overall Program cost

Disadvantages

- May not take advantage of innovative approaches of other consultants excluded from the Program.

Option B - Dual Contractor Option

Description

Single procurement contractor for ULFT purchase and warehousing, and transportation of new ULFTs to CBOs, schools and other distribution sites.

Single implementation contractor for project development and marketing, CBO oversight and payment, agency contact, ULFT distribution, used toilet recycling, customer relations, and overall Program distribution management.

Advantages/Disadvantages

Advantages

- Provides increased Program contractor diversity; spreads the benefits of Program participation among more subcontractor firms.

- May take advantage of new innovative approaches to Program management.

- Contractors are "specialists" in their particular discipline; may reduce "learning curve" effect.

Disadvantages

- May create conflicts between contractors relating to ULFT ordering and delivery quantities and distribution demands of the Program; may result in maintaining excess inventory in order to provide a "cushion" against demand variations.

- Requires Met to assume Program management responsibilities over a second contractor on the same Program; may require Met to directly coordinate ULFT purchases with distribution demand; may require Met staff to "arbitrate" differences or disputes between the two contractors.

- Higher cost that Option A by approximately $2.50 per ULFT, or $300,000 per year; would require Met to increase Program participation cost to member agencies.

Option C - Multi-Contractor Option

Description

Single procurement contractor for ULFT purchase and warehousing, and transportation of new ULFTs to CBOs, schools and other distribution sites.

Multiple implementation contractors for project development and marketing, CBO oversight and payment, agency contact, ULFT distribution, used toilet recycling, customer relations, and overall Program distribution management. Multiple contractors would be assigned on a geographic "territorial" basis coterminus with member agency service areas boundaries.

Advantages/Disadvantages

<u>Advantages</u>

- Provides increased Program contractor diversity; spreads the benefits of Program participation among many prime and subcontractor firms.
- May take advantage of new innovative approaches to customer marketing and Program management.
- Implementation contractors would be especially knowledgeable of their particular assigned "territory" and could bring that knowledge to the marketing effort.
- Some agencies would be very receptive to working with a contractor selected for their specific area.

<u>Disadvantages</u>

- Transfers the Program management responsibilities to Met that are now performed by the implementation contractor (CTSI).
- Significantly fragments the Program, requiring extensive Program management oversight by Met; would require Met to directly coordinate ULFT purchases with distribution demand and "arbitrate" differences and disputes among the various contractors.
- Increases contractor reporting and resulting paperwork at Met; significantly increases the work of the Accounting Division and the Auditor during and following Program execution.

- Would result in one large contract (for the LADWP service area) for 80 percent of the Program distribution effort, while the balance of 20 percent would be divided among two or more firms; this unbalanced structure could hinder the proposal process and subsequent contract negotiations.

- Would eliminate "economies of scale" achieved through large Program implementation; member agencies would not necessarily benefit from marketing developments and innovations made by the LADWP implementation contractor.

- Highest cost alternative; increases cost over Option A by nearly $10 per ULFT; or $1.2 million per year; would require Met to significantly increase Program participation cost to member agencies.