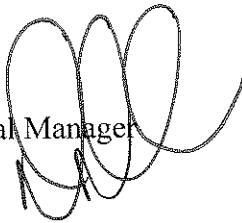




## MEMORANDUM

To: Madison Common Council

From: David Denig-Chakroff, General Manager 

Date: July 11, 2007

Subject: Legistar File No. 06403: Water Utility Contract Amendment with EMA, Inc.

At the Common Council meeting on July 3, 2007, two areas of questions were raised regarding the resolution to amend the EMA contract for implementation of the Utility's strategic planning initiative. This memo and the two attachments address those two areas. I will attend the Council meeting on July 17 to answer any additional questions you may have.

### Sole Source Contracting

On June 6, 2006, the Water Board instructed staff to conduct an open, competitive process for selection of a consulting firm for the Utility's strategic planning initiative. A selection committee made up of the General Manager, two Board members, a representative of the Mayor's office and a Union staff member and alternate. An RFP was issued, five proposals were received, the selection committee held interviews with two finalists, and EMA, Inc. was unanimously selected for the work based on its proposal. The EMA proposal divided the work into two phases: (1) development of a strategic plan and implementation plan based on a participatory assessment process, and (2) implementation of the plan. The proposal provided cost estimates for each phase: \$49,980 for Phase 1 and \$300,000 - \$500,000 for Phase 2. The estimate for Phase 2 covered a broad range because the eventual cost of implementation would depend on the outcome of the assessment/strategic plan and the level of involvement of staff in the implementation process.

A resolution "authorizing the Mayor and the City Clerk to execute a Professional Services Agreement with EMA, Inc. to facilitate and conduct a utility-wide, participatory self-assessment of the organizational issues, communication, work practices, and technology; identify opportunities for improvement; and implement recommendations [emphasis added]" was approved by the Board on June 25, 2006. The Common Council approved the same resolution on August 1, 2006.

The initial resolution only authorized expenditures for Phase 1 of the program because the Utility only had budget approval for \$50,000 in 2006 for this purpose. The Board also expressed interest in seeing the outcome of the Strategic Plan before committing to its implementation. Consequently, the initial contract with EMA covered only Phase 1 and was limited to \$50,000, even though the resolution covered authorization for the entire program.

In August 2006, the Board approved the Utility's 2007 operating budget request, including \$300,000 for "implementation of the Strategic Business Planning Initiative with EMA. In November 2006, the Common Council approved the Utility's 2007 operating budget with a "Budget Highlights" note stating, "Funding of \$300,000 to implement Phase 2 of the action plan resulting from the completion of the Strategic Business Planning Initiative begun in 2006 with EMA, Inc."

On March 20, 2007, the Board adopted the Strategic Plan, and on June 19, 2007, the Board approved the resolution to amend the EMA contract to proceed with implementation of the plan (Phase 2) and adding \$300,000 to the contract.

The resolutions could have included more background information and could have provided a clearer explanation of the process and expectations with respect to contracting for and conducting the two phases of the project. However, the initial resolution title stated that it was for authorization of an agreement to conduct and "implement recommendations" of the strategic plan, and it was clear that the selection of the consultant for the work was through an open, competitive process.

#### EMA Committed Expenses

The questions of the Common Council around expenses committed against the \$300,000 contract amendment prior to its execution were similar to the same questions raised by the Water Board at its meeting of May 15, 2007, which triggered the Board to refer the matter to its June meeting when EMA and staff could provide answers to those questions. About 60% of \$114,701 committed was for tasks requested of EMA by the Water Board and staff to address urgent needs that were not anticipated or included in EMA's original proposal. The other 40% were for services proposed by EMA as part of Phase 2 of the project. We moved forward with these services pending finalizing the amendment due to the urgent need to address important communication, leadership and technical issues at the Utility and to maintain the momentum and involvement and positive environment among employees that was apparent following the participatory assessment phase of the project.

The situation was exacerbated by the amount of time it took (following Board approval of the Strategic Plan on March 20) to introduce an amendment for Phase 2 to the Common Council (May 15). Part of the delay in developing the amendment was caused by our need to wait for accounting information from EMA regarding the amount of expenses incurred to date. The other factor was that, during this same period, Utility staff was heavily involved responding to and dealing with a number of high-profile chlorine events in the water system, which took priority over other matters.

## **Chronology of Water Utility strategic planning contract:**

**June 6, 2006.** A resolution for a sole-source contract with EMA to conduct and implement a strategic plan for the utility was proposed to the Board of Water Commissioners. Staff had proposed to present this resolution at the Board's regular meeting on June 20, and the Mayor asked that it be placed on the agenda of this special meeting (initially established for a bond issuance) as a result of the Mayor's 10-pt initiative and his desire to move forward quickly on this project. On a 3-to-1 vote the Board voted to reject the sole-source resolution in favor of issuing an RFP and conducting a competitive process for selecting a firm for this work. The selection of the consultant was to be by a committee made up of the General Manager, two Board members, a representative of the Mayor's office, and one staff member appointed by the Union.

**June 23, 2006.** An RFP for a Strategic Planning Initiative was issued, with proposals due July 7. The RFP included elements for both preparing a strategic plan and for implementing that strategic plan. Proposers were asked in the RFP to include cost estimates for the project if implementation would exceed the \$50,000 in the Utility approved budget, which we fully expected to be the case. A special board meeting was set for July 25 to approve a selection and contract, with Common Council approval scheduled for August 1 and project start-up on August 15.

**July 24, 2006.** Five proposals were received by July 7 in response to the RFP, and a selection committee made up of David Denig-Chakroff, Lauren Cnare, Jon Standridge, Joe Stein (Jim McCormick-alternate) and Janet Piraino narrowed the candidates to two, which were asked to give presentations to the committee on July 24. EMA's proposal was the unanimous selection of the committee. The deciding factors included EMA's extensive experience conducting and implementing strategic plans for water utilities and its inclusive process, which involved participation from employees from the beginning and throughout the process. In its proposal, EMA outlined a two-phase approach. Phase 1 (incorporating the \$50,000 existing budget) would proceed through preparation of the Strategic Plan and Implementation Plan. Phase 2 covered actual implementation of the plan and a budget of \$300,000 - \$500,000 was estimated for the implementation phase.

**July 25, 2006.** At a special meeting, the Board of Water Commissioners approved the selection of EMA for the strategic planning initiative and approved the substitute resolution for the contract. The title of the substitute resolution approved (File No. 3838) was:

SUBSTITUTE Authorizing the Mayor and the City Clerk to execute a Professional Services Agreement with EMA, Inc. to facilitate and conduct a utility-wide, participatory self-assessment of the organizational issues, communication, work practices, and technology; identify opportunities for improvement; and implement recommendations [emphasis added].

The clauses of the substitute resolution stated that, "the Utility has conducted a competitive process for soliciting and evaluating proposals for this project" Because funding (\$50,000) in the 2006 operating budget was only sufficient for Phase 1 of the project, which did not include implementation, the resolution only authorized expenditures of that amount (for Phase 1) even

though the resolution also covered Phase 2 (“implement recommendations”). During discussion at the meeting, it was stated that “this \$50,000 is only for Phase 1.”

**August 1, 2006.** The Common Council approved the substitute resolution (File No. 3838) described above by acclamation.

**August 15, 2006.** The Board approved the utility’s 2007 operating budget request, including \$300,00 for “implementation of the Strategic Business Planning Initiative with EMA.” The discussion of this item made it clear that the intent is to continue the project with EMA (pending approval of the Strategic Plan) in accordance with EMA’s original proposal.

**September 8, 2006.** Contract for Phase 1 of the strategic planning initiative was signed with EMA.

**November 14, 2006.** The Common Council approved the Water Utility 2006 operating budget, which includes a “Budget Highlights” note, which states: “Funding of \$300,000 to implement Phase 2 of the action plan resulting from the completion of the Strategic Business Planning Initiative begun in 2006 with EMA, Inc.”

**February 20, 2007.** EMA presented the Strategic Plan to the Board of Water Commissioners.

**March 20, 2007.** The Board of Water Commissioners approved the Strategic Plan. In its discussion, the Board made clear its expectation that the Utility would move forward quickly to implement the plan, particularly issues related to communication and leadership. The motion unanimously passed was to “approve the EMA developed Strategic Plan consistent with the commitments from today.”

**May 15, 2007.** A resolution to amend the EMA contract to include the implementation phase (Phase 2), as proposed in its response to our RFP and included in the Water Utility approved 2007 operating budget, was introduced to the Common Council and referred to the Board of Water Commissioners.

**May 15, 2007.** The resolution to amend the EMA contract was referred by the Water Board to its June meeting with a request for more information.

**June 19, 2007.** Following a discussion and receiving answers to questions from staff and EMA, the Board approved the resolution to amend the EMA contract.

## **Analysis of expenses prior to approval of EMA contract amendment:**

### **Background**

As of approximately June 15, 2007, the Utility approved EMA expenses of \$114,791 which would be expensed against the \$300,000 proposed amendment to the existing EMA contract should that amendment be approved. The majority of these expenses were for services that the Water Board and/or staff requested of EMA that were considered urgent and were outside EMA's original strategic planning proposal. There were discussions among staff and EMA as to whether these extra service should be invoiced separately by work orders, but since they were so closely related to the work proposed for the strategic planning contract, it was decided it would be better to incorporate the tasks into the contract for accounting purposes. Other tasks were anticipated as part of the strategic plan implementation and were initiated in order to maintain the momentum and motivation generated by employees for this process during the development of the Strategic Plan. A description of the tasks conducted and their cost are outlined below.

### **Tasks Requested Outside EMA's Original Proposal**

**Work Practices/Workflow Mapping Workshop.** Conducting this workshop was a specific recommendation of the Investigation Report following a chlorine event at Unit Well 29. The Report established a due date of October 31, 2006 to conduct the workshop. The workshop was held October 30 through November 1, 2006. **Cost: \$8,577**

**External Communications Plan.** At the joint meeting of the Board of Health and Board of Water Commissioners on November 28, 2006, the Water Board adopted a motion to establish a subcommittee to develop an External Communications Plan. Staff was asked to arrange for consulting assistance from EMA for this subcommittee because "part of what they're doing is also a communications plan, so we wanted to take advantage of their expertise" (Lauren Cnare, minutes of Dec. 19, 2006 Water Board meeting). At its meeting of January 16, 2007, the Board discussed the fact that this work was not part of EMA's original proposal, and that they would need to be paid for this additional work. **Cost: \$18,076**

**SCADA System Preliminary Design.** Staff had begun this project and decided to take advantage of EMA's considerable expertise in this area to move the project forward, given other issues they were facing and other commitments that had been placed on staff time. Chlorine issues partially related to deficiencies in the SCADA system moved this project up in priority. EMA began working on this project mid-December 2006 and held its first meeting with the Utility design team on January 24, 2007. **Cost: \$19,056**

**Facilitation of Water Board Special Meeting to Develop Mission Statement and Set Priorities for the Coming Year.** At its regular meeting January 16, 2007, the Water Board asked staff to arrange for a facilitator from EMA for its special meeting of March

8, 2007. The Board scheduled this meeting purposely between the meeting at which it received the final draft of the Strategic Plan and the meeting at which it accepted the plan so it could align its mission and priorities with the plan. It was felt that a facilitator from EMA was best suited to accomplish this in an expedient manner. **Cost: \$2,287**

**Leadership Workshop.** On numerous occasions, Water Board members stressed the importance and priority of leadership training for Utility top management staff. Staff arranged for a leadership workshop led by EMA on February 6, 2007. **Cost: \$3,812**

**Chlorine Standard Operating Procedures.** This task was added as a specific urgent staff request in May 2007 to assist in development of standard operating procedures for chlorine levels at unit wells following several chlorine events at unit wells. **Cost: \$5,504**

#### **Tasks Started Within EMA's Original Proposal**

**Steering Team Guidance.** Following the completion of the assessment process and the Strategic Plan, there was a high level of momentum and motivation by employees to begin the implementation of the plan. Appointment to and meetings of the employee-lead steering team were initiated on March 20, 2007 as a way to jump-start the process and respond to requests to move forward with the strategic plan implementation as quickly as possible. **Cost: \$40,823**

**Internal Communications.** This became the highest priority issue identified by employees and the steering team. When approval of the contract amendment became delayed by Board referral, staff agreed to proceed with this priority item in order to keep the process moving and to keep employees involved and motivated. **Cost: \$1,520**

#### **Summary**

Tasks outside the EMA proposal:	\$ 57,312
Tasks within the EMA proposal:	42,343
Project management/Admin./direct expenses:	<u>15,136</u>
<b>TOTAL EXPENSED</b>	<b>\$114,791</b>