

DATE ISSUED: July 25, 2001

REPORT NO. 01-161

ATTENTION: Land Use & Housing Committee  
Agenda of August 1, 2001

SUBJECT: Pre-Qualification of Public Works Construction Contractors

REFERENCE: City Manager's Report 00-251  
City Manager's Report 01-039

### SUMMARY

Issue - Should the City Council adopt a pilot pre-qualification program for construction contractors?

Manager's Recommendation - Adopt a one year, pilot pre-qualification program for City of San Diego construction contractors.

Other Recommendations - None

Fiscal Impact - None.

### BACKGROUND

On February 28, 2001, staff brought forward to the Land Use & Housing Committee (LU&H) a recommendation to implement a one year pilot program for the pre-qualification of construction contractors in an effort to proactively address the issue of contractor mediations, defaults, debarments and other legal proceedings affecting the City's ability to complete construction projects in a timely manner.

Hearing concerns from segments of the contracting community over the implementation of such a program, the Committee directed staff to meet with community representatives in an effort to reach agreement. In compliance with the directive, staff held a series of work group sessions with representatives of the American Subcontractors Association, the Association of Building Contractors (ABC), the Association of General Contractors (AGC), the Black Contractors Association (BCA), the Engineering & General Contractors Association (EGCA), National Electrical Contractors Association (NECA), the Surety Association of San Diego and Women Construction Owners and Executives (WCOE). The sessions focused on the intended outcome of a pre-qualification program and the affect such a program would have on the contracting community, particularly smaller firms.

After several meetings with representatives of the above referenced groups, the pre-qualification process brought before LU&H on February 28, 2001, has been modified to address industry concerns while still maintaining the integrity of the program and its purpose: to identify and pre-qualify contractors who have demonstrated the attribute of trustworthiness, as well as quality, fitness, capacity, and experience to satisfactorily perform public works contracts.

## DISCUSSION

Consistent with the City's current bonding threshold, pre-qualification applies to projects with an estimated construction cost of \$100,000 or more. Contractors interested in bidding such projects will be required to complete Phase 1 pre-qualification. Administered on a quarterly basis, Phase 1 will include a series of questions in two primary areas: History of the Business and Organizational Performance; and Compliance with Safety, Worker's Compensation, Prevailing Wage, EEO and Apprenticeship Laws. Firms will be evaluated and scored using a standardized rating system. In addition, City staff will conduct reference interviews with contacts from past projects. A passing score is required in each of the three (3) areas identified above as follows:

Factor	Maximum Point Value	Passing Score
History of the Business and Organizational Performance	61	43
Compliance with Safety, Worker's Compensation, Prevailing Wage, EEO and Apprenticeship Laws	58	41
Reference Interviews	120	72

Upon completing Phase 1 with the required passing score, contractors shall be pre-qualified to bid, for a period of one year, up to a specified dollar capacity as deemed appropriate by the pre-qualification panel based upon a review of required financial documents (capacity thresholds are stated below). Applications for pre-qualification will be accepted on a quarterly basis.

Phase II pre-qualification shall continue to be reserved for projects requiring highly specific technical skills and capabilities. In such cases, a project specific pre-qualification process will be held for interested firms that have successfully completed Phase I. Phase II will be used to assess a firm's technical experience in performing equivalent scopes of work through an evaluation of past projects of a similar nature and interviews with contacts from randomly selected past projects. The scoring system for previous experience shall be tailored to the specific requirements of each project, but shall be applied uniformly to all applicants for that project.

As stated, Phase II projects are highly technical, and the pool of contractors possessing the necessary technical skills is often limited. Staff reserves the right to allow such firms that have not completed Phase I pre-qualification to apply for Phase I, outside of the normal quarterly application process. Such exceptions will be made by staff if necessary to maximize the bidder pool and meet project schedules.

The process described above is consistent with the process previously brought forward with some exceptions.

1. At the suggestion of the work group, some of the questions were rewritten for clarification.
2. Three (3) questions have been omitted after concerns were raised that industry trends and factors beyond the control of the contractor may contribute to the initiation of the actions stated in the questions. The three (3) questions are:

*"In the past five (5) years, has any insurance carrier, for any form of insurance, refused*

*to renew the insurance policy for your firm?”*

*“If your firm was required to pay a premium of more than one percent (1%) for a performance and payment bond on any project(s) on which your firm worked at any time during the last three years, state the percentage that your firm was required to pay. You may provide an explanation for a percentage rate higher than one percent (1%), if you wish to do so”.*

*“During the last five (5) years, has your firm ever been denied coverage by a surety company, or has there been a period of time when your firm had no surety bond in place during a public construction project when one was required?”*

3. Contractors will apply and be evaluated for their ability and capacity to perform work within pre-determined tiers:
  - a. \$100,000 to under \$1 million;
  - b. \$1 million to under \$5 million
  - c. \$5 million to under \$10 million
  - d. \$10 million and over

[NOTE: Pre-qualification at any of these levels will also pre-qualify a firm to perform work at any lower capacity levels].

In addition to the above, staff has also added a further refinement by moving the reference interviews from Phase II, as described in CMR 01-039 (Attachment 1) to Phase I. Refer to Attachment 2 for the complete questionnaire.

## CONCLUSION

The changes made to the pre-qualification process reflect a compromise between City staff and the contracting industry without significantly impacting the integrity of the program but rather taking into consideration the concerns and interests of the targeted group, particularly small contractors.

Given the level of effort by staff and the contracting community thus far, the next appropriate step is to implement a one year pilot pre-qualification program during which time staff can further evaluate the likely effectiveness of a long term program.

## ALTERNATIVES

1. Do not implement a pilot pre-qualification process for City of San Diego construction projects.
2. Direct staff to study other approaches to construction contracting including a charter change to modify or eliminate the use of a low bid process.

Respectfully submitted,

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Deputy Director

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Approved: George I. Loveland  
Senior Deputy City Manager

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Note: The attachments are not available in electronic format. A copy is available for review in the Office of the City Clerk.

Attachments: 1. City Manager's Report 01-039, Pre-Qualification of Contractors Seeking to Bid on Public Works Projects  
2. Pre-Qualification Questionnaire