

DATE: February 20, 2003

REPORT NO: 03-031

ATTENTION: Natural Resources and Culture Committee
Agenda of March 5, 2003

SUBJECT: Pilot Utilities Construction Division

SUMMARY:

Issue - Should the City establish a two-year pilot Utilities Construction Division that will replace 10 miles of sewer/water pipelines per year?

Manager's Recommendation - Do not establish a pilot Utilities Construction Division at this time and revisit the issue in one year to again evaluate the need for a construction division.

Other Recommendation – On November 12, 2002 the Public Utilities Advisory Commission (PUAC) voted unanimously to not establish the Utilities Construction Division at this time and re-visit it in one year. They also made other recommendations that are outlined in this report.

Fiscal Impact - In the coming year, the City Manager will continue to monitor contractor's bids to determine if construction costs are stabilizing.

BACKGROUND:

During last year's budget deliberations, the Engineering & Capital Projects Department proposed a two-year pilot Utilities Construction Division that would be responsible for replacing 10 miles of sewer/water mains every year. This proposal was in response to the approximately 45% increase in bid prices resulting from market conditions at the time and the City's ramp up from 15-20 miles/year replacement in 1998 to 40 miles/year replacement program by 2004. City Council referred the proposal to the Public Utilities Advisory Commission (PUAC). In order to analyze all the data and study the proposal further. The PUAC assigned the proposal to a Special Issues Committee ("Committee"). The Committee met on September 5th, September 26, October 16, and held a public hearing on November 1, 2002.

DISCUSSION:

The goal of the Committee was to review and comment on the proposal of establishing a Utility Construction Division and investigate specific reasons for bidding difficulties, and to suggest ways in which the problems can be resolved through the construction division. Both City staff and members of the contracting industry attended the meetings in order to provide the Committee with information. As developing a construction division within the City is comparable to the challenges of establishing a private construction company, the committee requested any studies that were done in support of the recommendation. City staff provided a proposal and financial outline in a Utilities Construction Program Proposal dated February 2002.

The PUAC Special Issues Committee's determination was to not recommend establishing a Utility Construction Division at this time. It was hoped that through continuing programs and outreach that have been established, the competitive environment will continue to improve. However, the committee recommended revisiting the issue in one year to again evaluate the value of establishing a Construction Division.

The Committee's recommendation was forwarded to the PUAC which discussed it at their meeting of November 10, 2002. Their determination was also to not move forward now but to re-visit the Utility Construction Division in a year. During the course of the year they made the following additional recommendations to improve the competitive environment and increase contractor interest in City of San Diego work. The status of each are italicized in parenthesis.

- Continue the outreach program established by staff. Consider incentives when consultants are utilized that provide compensation based on performance and results. Emphasis on local contractors. *(City staff has both facilitated events where contractors and staff could discuss issues as well as sent packaged information to contractors outside of San Diego County).*
- Streamline or eliminate the cumbersome SCOPE application forms. *(Also being considered on the NR&C Committee Agenda March 5, 2003).*
- Streamline the pre-qualification process. *(Staff is currently working with the industry to improve the pilot pre-qualification program).*
- Continue to Group Projects to create larger projects for bidding. Continue the minor construction program to encourage small and minority contractor participation. *(Staff is moving forward with larger, mid-size and smaller projects and working toward enhancing the Minor Construction Program).*
- Continue to work with construction industry to accurately reflect current costs and thus improve the accuracy of "Engineers Estimates" cost estimating within the City. *(Staff has had several meetings with contractors in an effort to improve estimates).*
- Continue to improve and expand communications with contractors to address construction issues. *(Being accomplished on numerous issues).*
- Create a more consistent schedule for the work and maintain that schedule. Publish timelines for bidding and construction as far in advance as possible, (6 to 12 months) so that contractors can project and plan for the work. *(Staff is developing such a schedule).*
- Streamline the award process. The committee has concluded the bid to award timeline takes too long now which holds up the contractors bonding capabilities. *(Staff is working with the contracting industry on numerous issues relating to the award process).*

As can be observed, since the initial proposal of this Division in April 2002, the Engineering and Capital Projects Department has actively pursued most of the items recommended by the PUAC in addition to working closely with local contractors to refine the City's construction estimating process to reflect current market conditions. The number of contractors bidding per project has increased and it is believed that the efforts that the City has undertaken is stabilizing construction bids.

During the meeting of November 10 a member of the PUAC asked if staff explored the concept of a Utility Construction Division providing construction in canyons and environmentally sensitive areas instead of performing typical group jobs. The thought was borne out of concern for the habitat and resources in canyons and that workers not specifically trained in this work environment may inadvertently cause damage where it could otherwise be avoided. If the Division was oriented to this type of work it would acquire specialized equipment and be specifically trained such that it would lend itself to working in these sensitive areas. It should also be noted that the majority of projects that will be located in canyons will be starting in 11/2 to 2 years.

ALTERNATIVE:

1. Establish the two-year pilot Construction Division as part of the FY 2004 budget.
2. Discontinue pursuing the Utility Construction Division.

Respectfully Submitted,

Halla Razak
Deputy Director, Water & Wastewater Facilities
Division, Engineering and Capital Projects Department

Approved : George I. Loveland
Senior Deputy City Manager

Frank Belock, Jr.
Director, Engineering and Capital Projects Department