



## THE CITY OF SAN DIEGO

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### OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** September 16, 2022

**IBA Report Number:** 22-27

**Council Agenda Date:** September 20, 2022

**Item Number:** 331

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# Review of Proposed Capital Improvement Program (CIP) Streamlining and Transparency Improvements

## OVERVIEW

On July 20, 2022, the Active Transportation and Infrastructure (ATI) Committee discussed proposed Capital Improvements Program (CIP) Streamlining and process improvement measures. Three items were included:

- A. An ordinance to amend the San Diego City Municipal Code for the streamlining measures.
- B. A resolution to amend [Council Policy 000-31: Capital Improvement Program Transparency](#)
- C. A resolution to create a new Customer Service Council Policy

Proposed actions A and B were unanimously approved by the Committee and forwarded to the full Council with a recommendation to approve. Item C was returned to staff for revisions and is anticipated to return to ATI Committee at the October 12, 2022 meeting.

Councilmembers raised some questions about the proposed streamlining measures during the July 20, 2022 ATI Committee meeting, and our Office therefore met with Committee members' staff to ensure we were able to address those questions in this analysis. We further met with the Engineering & Capital Projects Department (E&CP) to obtain contract- and project-related information and discuss estimated savings to better understand the proposal. Our Office is providing this report to help further inform Council's discussion of this item on September 20, 2022.

In this report, we discuss the importance of streamlining CIP delivery to accommodate growth, build organizational capacity, and efficiently manage and deliver capital projects as the City deals

with budgetary and resource constraints and aging and deteriorating infrastructure. We provide information on each of the streamlining measures as well as an overall review of Architectural & Engineering (A&E) consultant contracting data. We also outline Council’s current oversight of the CIP through the budget and contracting processes and how the proposed streamlining measures would change that role. Finally, we assess potential time savings estimated by E&CP and identify several issues for Council to consider to further support efficient project delivery, transparency, and accountability.

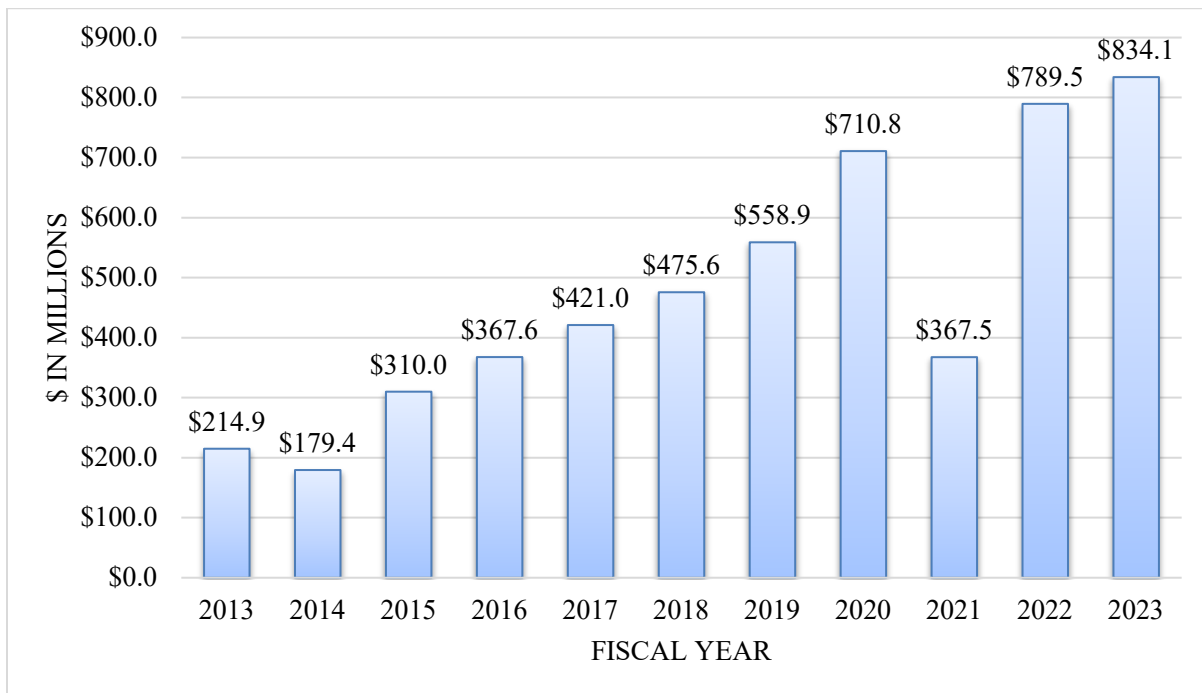
Our Office would like to thank staff from E&CP for providing requested information and responding to our questions in preparing this report.

## BACKGROUND

### Growth of the City’s CIP

The City’s annual CIP budget has grown significantly over the past 10 years, as shown in the chart below. Since FY 2013, the City’s CIP budget has increased by 288%, more than tripling from \$214.9 million in FY 2013 to \$834.1 million in FY 2023.<sup>1</sup>

**CIP Approved Budget, FY 2013-2023**



Note: This table compares Adopted CIP Budgets and does not reflect budget added throughout the fiscal years.

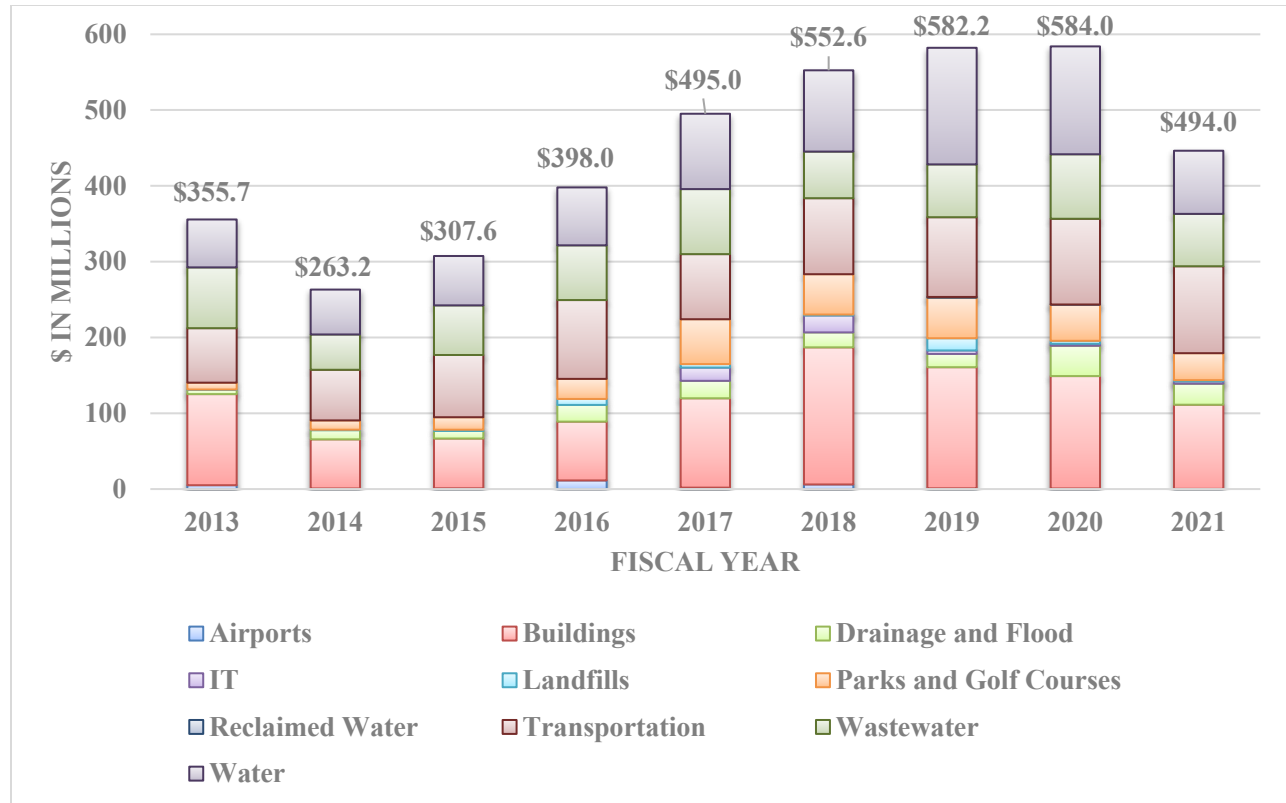
Another way to view growth of the CIP over time is to look at actual expenditures, which represent the volume of projects being delivered.<sup>2</sup> This helps to determine the actual capacity that E&CP

<sup>1</sup> Note, the CIP budget decreased by 49.5% from FY 2020 to FY 2021, primarily due to litigation-related delays with the Pure Water Project that resulted in no additional funding in FY 2020. That litigation has since been resolved.

<sup>2</sup> Actual expenditures are provided in Year-End State of the CIP Reports (<https://www.sandiego.gov/cip/reports>).

and other departments have to deliver compared with the CIP budget. The City has had challenges in the past spending down lease revenue bonds and commercial paper intended to finance projects. Proposed streamlining measures may help to reduce steps in the project delivery process and thereby expedite the expenditure of funds.

### CIP Actual Expenditures, FY 2013-2021



As shown in the chart above, CIP expenditures have increased by 25.5% from FY 2013 to FY 2021. This figure shows expenditures by project type, which emphasizes the complexity of delivering the City’s CIP. E&CP anticipates the volume of work to grow in future years to \$1.0 billion per year. Growth is attributable to the City’s significant capital needs and large projects (such as Pure Water and Storm Water) and potential state and federal funding opportunities (such as Build Better San Diego DIF funding, IIJA, and state grants opportunities).

### Historical CIP Streamlining and Transparency Measures

Since 2012, E&CP has endeavored to expand its capacity to manage an increasing CIP program and efficiently manage and deliver capital projects through various streamlining measures. Multiple process improvements to respond to the program’s growth and build organizational capacity in the CIP while increasing transparency have been implemented. For example, streamlining measures implemented in Fiscal Year (FY) 2013 established the Multiple Award Construction Contract (MACC) as a new project delivery method. MACCs are used for as-needed design and construction projects where a shortlist of pre-qualified design-build teams compete and bid on projects that are similar in scope or asset type without the need to conduct a full open

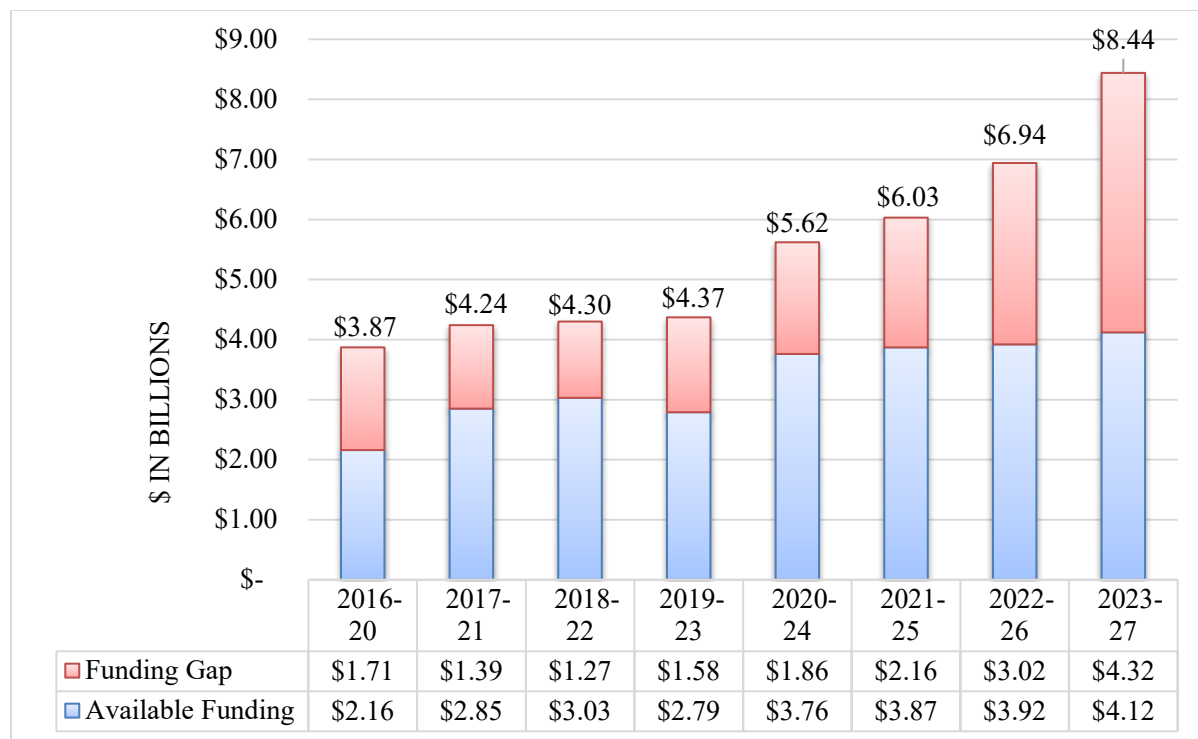
solicitation.<sup>3</sup> Streamlining the bidding and contract award processes reduces costs and time and allows project construction to begin sooner than traditional delivery methods.

Previous streamlining measures also have been intended to increase accountability and transparency of the CIP. [Council Policy 000-31: Capital Improvement Program Transparency](#) was developed in April 2012. Additionally, E&CP staff report on the state of the CIP twice annually.<sup>4</sup> A full list of previous streamlining measures is included as Appendix C to the [FY 2023-27 Capital Infrastructure Program Outlook \(CIP Outlook\)](#).

### Effective and Efficient Delivery of CIP Projects Is Important for the City

While the City has implemented a number of CIP streamlining measures already, it is important to underscore the importance of continuing to further streamline CIP delivery to accommodate growing infrastructure needs, especially as the City deals with budgetary and resource constraints; put simply, limited resources have to go farther. The [FY 2023-27 Capital Infrastructure Planning Outlook \(CIP Outlook\)](#) projects that capital infrastructure needs exceed available funding by \$4.3 billion over the next five years, as shown below.

**CIP Outlooks – Annual Projected Infrastructure Needs and Funding Gaps**



This represents the largest year-over-year increase in the capital funding gap since the report was first created in FY 2016; since FY 2016, the funding gap has increased by 152.6% from \$1.7 billion in FY 2016 to \$4.3 billion today.

<sup>3</sup> Projects, or task orders, under the MACC cannot exceed \$30 million and the cumulative amount of task orders cannot exceed \$100 million without Council approval.

<sup>4</sup> For more information on State of the CIP and State of Construction, see: <https://www.sandiego.gov/cip/reports>.

As we concluded in our [Review of the FY 2023-27 CIP Outlook](#), the City has a good understanding of the needs for many assets and is therefore in a good position to compete for state and federal funds, such as from the Infrastructure Innovation and Jobs Act (IIJA), which could potentially help begin to turn the tide on the City's infrastructure challenges.<sup>5</sup> To successfully deliver the growing CIP and address the backlog, the City needs to have an effective project delivery approach that includes streamlined processes and sufficient organizational capacity.

### **City Council Oversight**

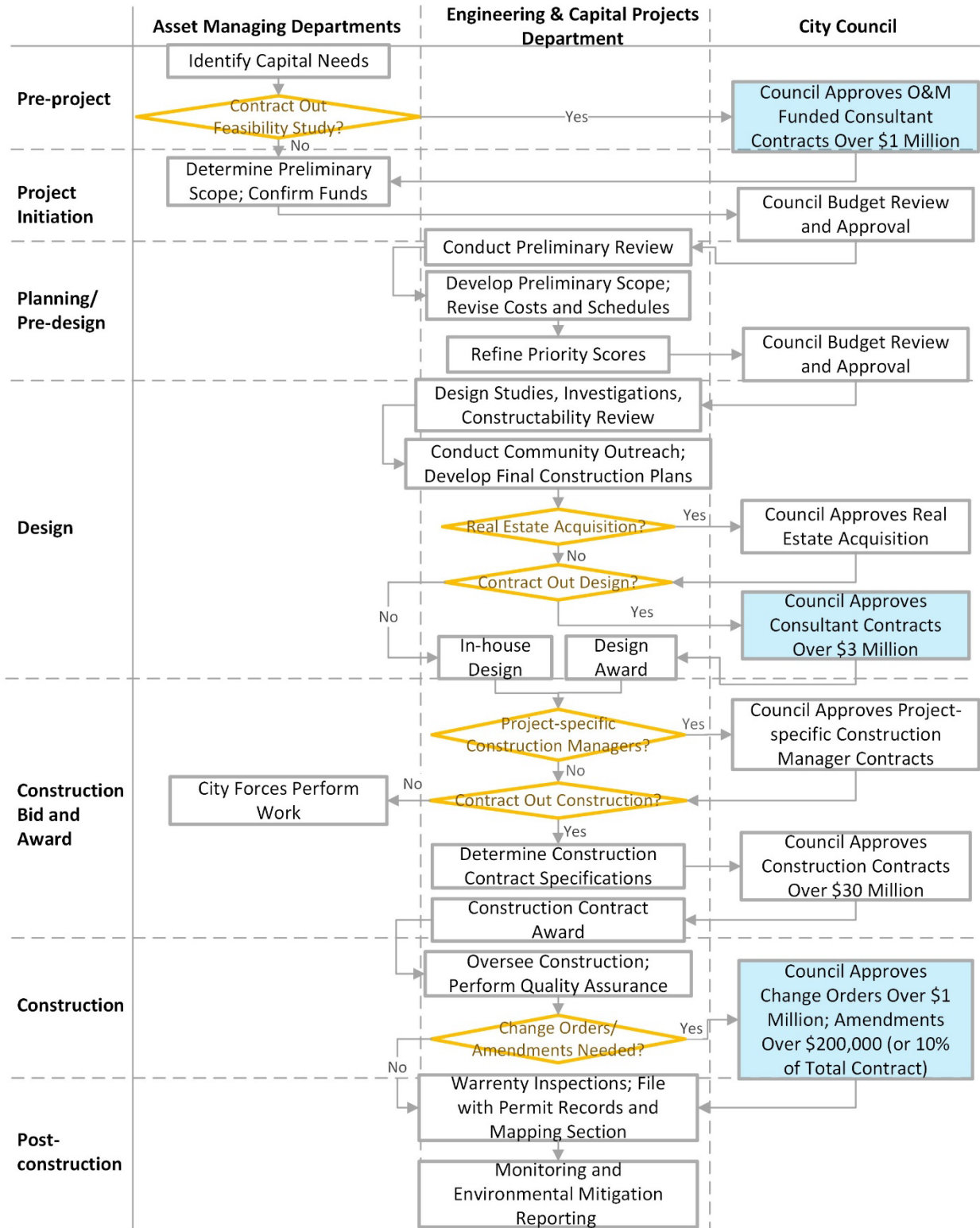
The City Council has an important role in providing oversight of the CIP by reviewing and approving the CIP Budget and various off-cycle capital projects brought to Council throughout the year. Council also provides oversight of the CIP by reviewing and approving consultant and construction contracts that are above Mayoral signature authority (which varies depending on the type of contract). Generally, these contracts are reviewed and approved by Council's ATI Committee, which leads Council oversight of many infrastructure-related items, before they go to the full City Council for approval.

To help show the City's CIP approval process, the figure on the next page outlines current Council oversight of the CIP throughout various project delivery phases, *including* the proposed increases to various Mayoral thresholds for contract-related approvals (thresholds that are proposed to increase are shown in blue shaded boxes). It's important to note that contracts of any dollar value that go beyond the project budget require Council approval.

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<sup>5</sup> IIJA was signed into law on November 15, 2021 and will provide an estimated \$1.2 trillion nationwide over the next ten years, with the State of California estimated to receive \$46.6 billion.

## Council Oversight of the CIP with Proposed Thresholds



Note: 1. When needed on projects throughout the various stages, Council also approves contract amendments, additional budget, and grants. 2. AMDs coordinate with ECP throughout the project life cycle.

## Proposed Council Action

To accommodate the growing CIP budget, contract sizes, and overall workload, E&CP is proposing a series of measures intended to further streamline the CIP procurement process, as is discussed in the next section of this report. We also note that two other efforts related to the proposed streamlining measures include:

- Developing a Council Policy for Customer Service, which is being revised and will be discussed at the October 2022 ATI Committee meeting.
- Revising [Council Policy 800-14: Prioritizing CIP Projects](#) which is anticipated to be discussed at ATI Committee at the November 2022 meeting.

E&CP's comprehensive approach toward project delivery improvements is discussed in Appendix 1 of this report.

## FISCAL AND POLICY DISCUSSION

E&CP is proposing a series of measures to streamline the CIP procurement process by amending the San Diego Municipal Code and updating various Mayoral thresholds for contract-related approvals, discussed in the table on the following pages. E&CP estimates an average savings of four to six months on project schedules, based on increasing Mayoral signature authority thresholds which will reduce the number of contract-related items requiring Council approval.<sup>6</sup> The goal is for E&CP staff to get contracts out to bid faster to allow them to focus the majority of their work on project planning, design, project management, construction management, surveying, materials testing, environmental planning, scheduling, and financial analysis. The proposed threshold changes will not eliminate the obligation to comply with Human Resources (HR) contracting requirements/process all Public Works and Equal Opportunity Contracting (EOC) requirements, including the recently implemented sheltering program for small and local businesses.

Proposed streamlining measures also include revisions to [Council Policy 000-31: CIP Transparency](#) to reflect changes to the Municipal Code, which are also discussed in the table on the following pages. Council Policy 000-31 is based on the City's budget process and establishes the minimum standard requirements for CIP transparency and public access to CIP-related information. It also establishes the framework for making the information available to stakeholders through presentations to the City Council, stakeholder meetings, reports, and updates to the City's web pages. This including requiring the following documentation:

- The multi-year CIP plan, called the CIP Outlook, that includes future needed CIP projects and budget impacts.
- CIP Budget project pages.
- CIP project summary lists, including status and bid information.
- List of consultant and construction contracts.
- CIP webpage, including project description, status, location and budget.
- Stakeholder meetings for construction, consulting and Small Local Business Enterprises (SLBE) and Emerging Local Business Enterprises (EBLE).

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<sup>6</sup> As we will discuss, while time-savings associated with avoiding the Council approval process for CIP contracts are real, the estimated time-savings of four to six months seems high, and other approaches to reduce time spent on contract approval – such as speeding up the Council's docketing process for contracts – could also be considered.

- EOC Program information.
- State of the CIP Report including overall CIP status.

Most requirements in the existing policy are continued, significant changes to the [Proposed Revised Council Policy 000-31](#) can be accessed via the link. These new requirements will be reported in State of the CIP Reports and/or the Purchasing & Contracting website.



### Proposed CIP Streamlining and Transparency Measures

Proposed Municipal Code Update	Supporting Details	Proposed Transparency Policy Update	Key Points
<p>1. <b>Mayoral Threshold for Awarding CIP Architectural &amp; Engineering (A&amp;E) Consultant Contracts</b> – Raise the limit from the current \$1.0 million to \$3.0 million for infrastructure-related contracts (SDMC 22.3207).</p>	<p>The average consultant contract has increased to about \$2.5 million in FY 2020.</p>	<p>Council Policy 000-31 section C.1 will be amended to include reporting of CIP A&amp;E consultant contracts valued up to \$3.0 million.</p>	<ul style="list-style-type: none"> <li>– Reduces City staff time needed for docketing Committee and Council actions.</li> <li>– Keeps pace with growing contracts especially since projects are often in construction when design decisions need to be made quickly.</li> <li>– <b>Council may wish to consider adding an inflation cost escalator.</b></li> </ul>
<p>2. <b>Mayoral Authority for Awarding Consultant Contract Amendments</b> – Currently, the Mayor has the authority to issue consultant contract amendments up to \$200,000. This action proposes maintaining the \$200,00 threshold and adding “or 10.0% of the contract, whichever is greater (SDMC 22.3018)”.</p>	<p>For example, if the original contract is \$5.5 million, the mayor would have authority to award an amendment up to \$550,000.</p> <p>E&amp;CP reports that the average consultant contract amendment has increased from \$200,000 in FY 2014 to \$611,000 in FY 2022.</p>	<p>Council Policy 000-31 section G.3 will be amended to include the listing of consultant contract amendments greater than \$200,000.</p>	<ul style="list-style-type: none"> <li>– The timing of consultant contract amendments is critical as projects are often near or in construction when design decisions need to be made in a timely manner to avoid a further increase in project costs or delays.</li> <li>– <b>Council may wish to consider adding a cap for the consultant contract amendment threshold above which amendments would be required to come to Council on particularly large projects.</b></li> </ul>
<p>3. <b>Cumulative Limit on Consultants (with all future awards within that fiscal year, regardless of dollar amount, requiring Council approval)</b> – Raise the current cumulative limit of \$1.0 million per year for any consultant to \$5.0 million (SDMC 22.3207 (b) (4)).</p>	<p>Centralizing the City’s contracting in 2006 and established policies to ensure all consultants are selected via an unbiased competitive selection process.</p>	<p>Council Policy 000-31 section C.2 will be amended to include listing of awarded contracts by consultant.</p>	<ul style="list-style-type: none"> <li>– Reduces City staff time needed for docketing Committee and Council actions.</li> </ul>

Proposed Municipal Code Update	Supporting Details	Proposed Transparency Policy Update	Key Points
<p>4. <b>Mayoral Threshold to Award Operations &amp; Maintenance (O&amp;M)-Funded Consultant Contracts</b> – Raise the Mayor’s authority to issue O&amp;M-funded (non-CIP, infrastructure-related) contracts consultant contracts from \$250,000 to \$1.0 million (SDMC 22.3207).</p>	<p>This references consultant studies, such as feasibility studies that are typically conducted using O&amp;M funding to identify alternatives prior to project initiation.</p>	<p>N/A</p>	<ul style="list-style-type: none"> <li>– This threshold was recently updated for Sheltered Comp (re: Disparity Study) to be &gt; \$500,000. This action increases the threshold to \$1.0 million</li> </ul>
<p>5. <b>Mayoral Threshold to Award Change Orders on Large Construction Contracts (&gt;\$10.0 million)</b> – Increase the Mayor’s authority to execute construction change orders from the current \$500,000 to \$1.0 million for contracts over \$10.0 million (SDMC 22.3018).</p>	<p>Mayoral threshold to award change orders for Pure Water construction contracts is \$2.0 million.</p>	<p>CP 000-31 section G.2 will be amended to cover reporting of CIP related construction change orders for projects between \$500,000 and \$1.0 million.</p>	<ul style="list-style-type: none"> <li>– In 2012 when City Council approved the current change order limit of \$500,000 for major CIP projects the average construction contract value was approximately \$1.5 million.</li> <li>– Increasing the change order limit for construction contracts \$10 million and greater will facilitate project efficiency and help to avoid delays by reducing the time required to execute change orders.</li> </ul>
<p>6. <b>Mayoral Threshold for City Forces for CIP Project Construction</b> – Raise the threshold for City Forces to perform construction of CIP projects from the current \$100,000 to \$500,000 (SDMC 22.3105).</p>	<p>The threshold reference total labor costs rather than project costs.</p>	<p>N/A</p>	<ul style="list-style-type: none"> <li>– Increasing this threshold gives City Forces staff more opportunities to complete work in-house.</li> <li>– Reduces City staff time needed for docketing Committee and Council actions.</li> </ul>

Proposed Municipal Code Update	Supporting Details	Proposed Transparency Policy Update	Key Points
<p>7. <b>Modification of Job Order Contract (JOC) Tasks</b> – Amend Municipal Code 22.3103 to allow for task orders to be awarded on Job Order Contracts for three years and create a task order modification limit of \$500,000. Amend Municipal Code 22.3104 to update the threshold to award Job Order Contract to \$5,000,000 for all work.</p>	<p>Currently, the Municipal Code does not have a limit for task order modifications for Job Order Contracts. This action proposes to create a limit of \$500,000 to match the current threshold for construction change orders.</p>	<p>N/A</p>	<ul style="list-style-type: none"> <li>– The current Job Order Contract limits are at \$5,000,000 for pipeline work and asphalt paving, and \$1,000,000 for all other work.</li> <li>– With inflation and the rising cost of construction, the existing threshold for contracts outside of pipelines and asphalt paving limits severely limits the opportunities to utilize these contracts.</li> <li>– <b>Council may wish to consider that tasks issued under JOCs be reported in State of the CIP Reports.</b></li> </ul>
<p>8. <b>Change the Authorization Process to award Utility Undergrounding Contracts</b> – Provide the Mayor authority to award <u>consultant and construction contracts</u> for Utilities Undergrounding Program (UUP) funded projects approved by Council matching the proposed CIP limits (SDMC 22.3018 &amp; 22.3102).</p>	<p>This only references projects where the City is the lead on the design rather than SDG&amp;E.</p>	<p>All existing and proposed transparency measures for typical CIP projects will apply to UUP contracts managed by the City.</p>	<ul style="list-style-type: none"> <li>– Currently these projects follow the same public works contracting process as CIP projects with the exception of the authority to award construction contracts.</li> <li>– The limits on authority require all pilot UUP projects to go to Council to award construction contracts. Typically, these projects are already approved by Council during the undergrounding district creation process.</li> </ul>
<p>9. <b>Authorization Process to Execute Caltrans Co-op Agreements</b> – Amend section 22.3003 (Attachment 2) in the Municipal Code to allow Mayoral authority for Caltrans Co-operative Agreement signature to award design contracts up to \$3,000,000, and construction contracts up to \$30,000,000. This would correspond to the threshold for CIP projects.).</p>	<p>Examples of recent projects that have required Council actions due to inter-agency agreements are Friars/SR163, Torrey Meadows overcrossing SR56, and Euclid/SR94 Interchange, all of which had co-operative agreements with Caltrans.</p>	<p>Council Policy 000-31 amendment will include section E.1.D providing a summary list posting on the City’s web site of Inter-Agency (Co-operative) Agreements.</p>	<ul style="list-style-type: none"> <li>– Currently, there is no regulation that allows Mayoral authority to execute inter-agency agreements related to the delivery or operation of infrastructure projects.</li> <li>– This aligns with the authority to award construction contracts up to \$30,000,000 dollars and proposed threshold of awarding design contracts up to \$3,000,000.</li> </ul>

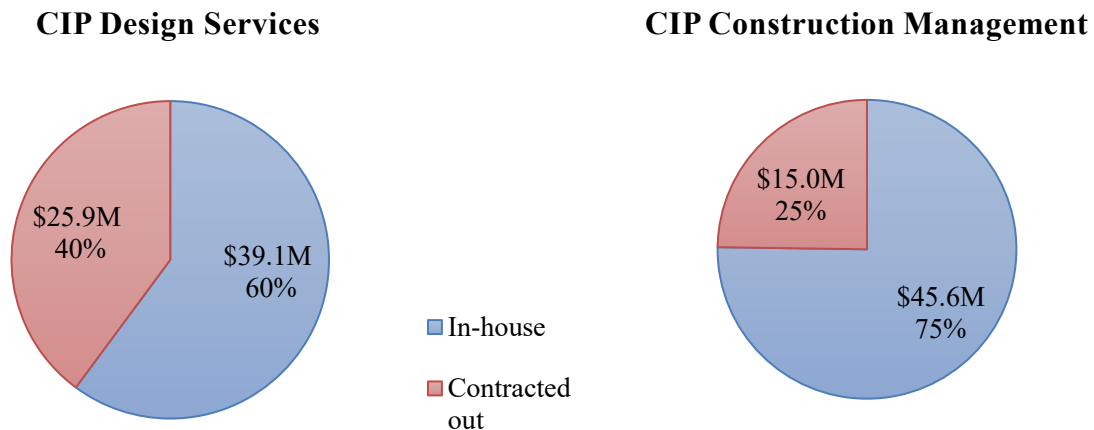
The following sections provide analysis of contract data and discuss select streamlining proposals in more depth.

## Contracts and Approval Thresholds

### Architectural & Engineering (A&E) Consultant Contracts

The City contracts out a significant amount of work related to CIP projects, including most of its construction work, although City Forces are used for minor construction projects. For CIP design and construction management services, some work is performed by in-house City staff, and some is performed by contracted outside Architectural & Engineering (A&E) consultants. A&E consultants may be used when the City requires special expertise or when City staff is unable to complete the work due to its existing ongoing workload. The need to contract out for services is also related to the number of vacant positions within the Public Works Department, which as of September 7, 2022 totaled 142.50 FTEs (a vacancy rate of 17.5%).

A&E consultants include engineering professionals engaged in civil, structural, mechanical, traffic, corrosion, electrical, and geological engineering; landscape architects, architects, and land surveyors; and professional consultants in the archeological, biological, and environmental disciplines. The FY 2021 Year End State of the CIP shows expenditures contracted out for Design Services in FY 2021 were \$25.9 million or 40.0%. For Construction Management, contract expenditures were \$15 million or 25.0% of the total, as shown below.

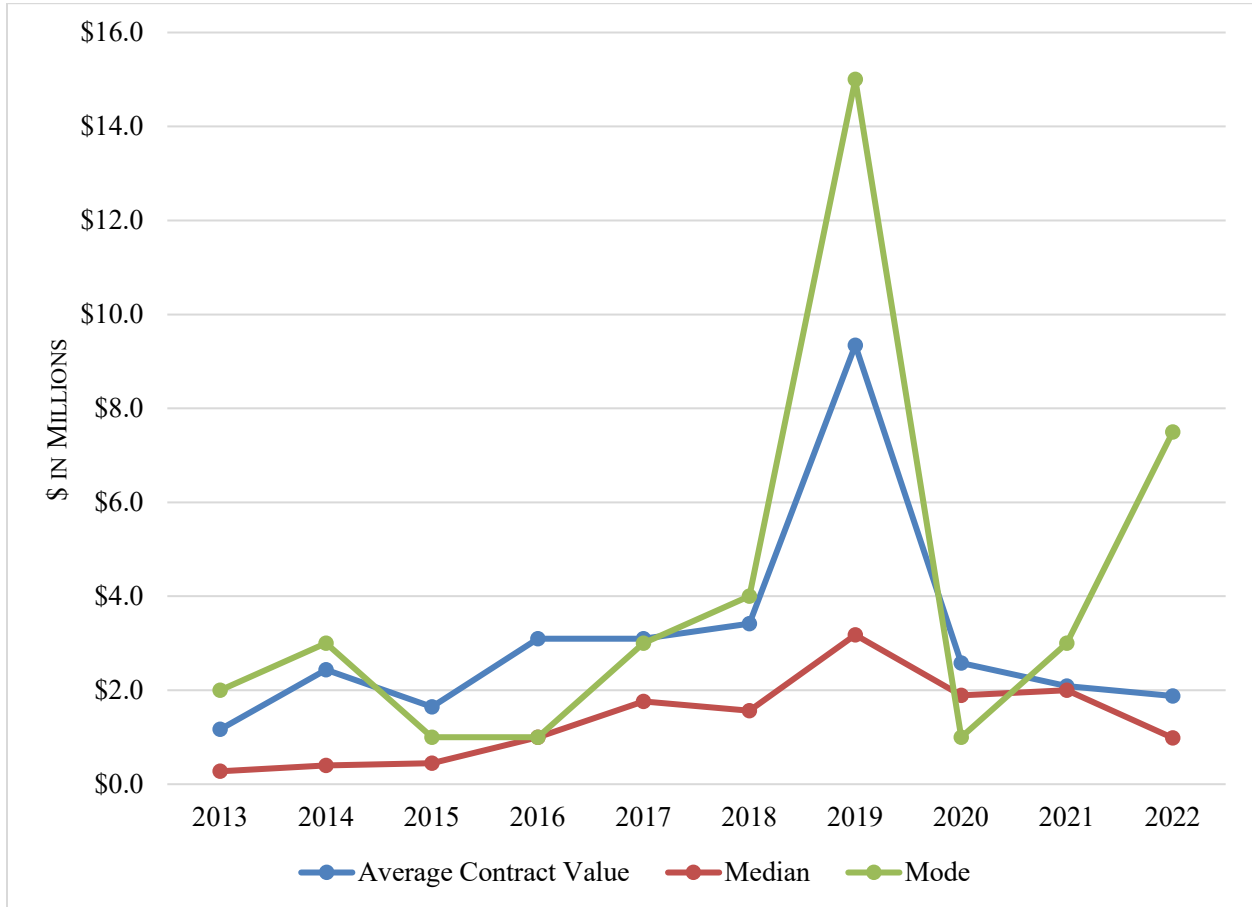


The streamlining measures propose increasing the mayoral threshold for Awarding CIP A&E consultant contracts without Council approval from the current \$1.0 million threshold to \$3.0 million for infrastructure-related contracts (SDMC 22.3207). Raising the threshold is intended to expedite the overall project process by reducing the need to obtain City Council approval of contracts, and to procure consulting services faster. E&CP reported that the average consultant contract has increased to about \$2.5 million in FY 2020 and that the costs of A&E contracts are anticipated to continue to increase.<sup>7</sup> We calculated average contract value, median (middle value),

<sup>7</sup> E&CP's approach to calculating the average contract does not include Pure Water contracts which are higher in dollar value. Our approach does include Pure Water consultant contracts to provide a comprehensive view of consultant contracts over the time period.

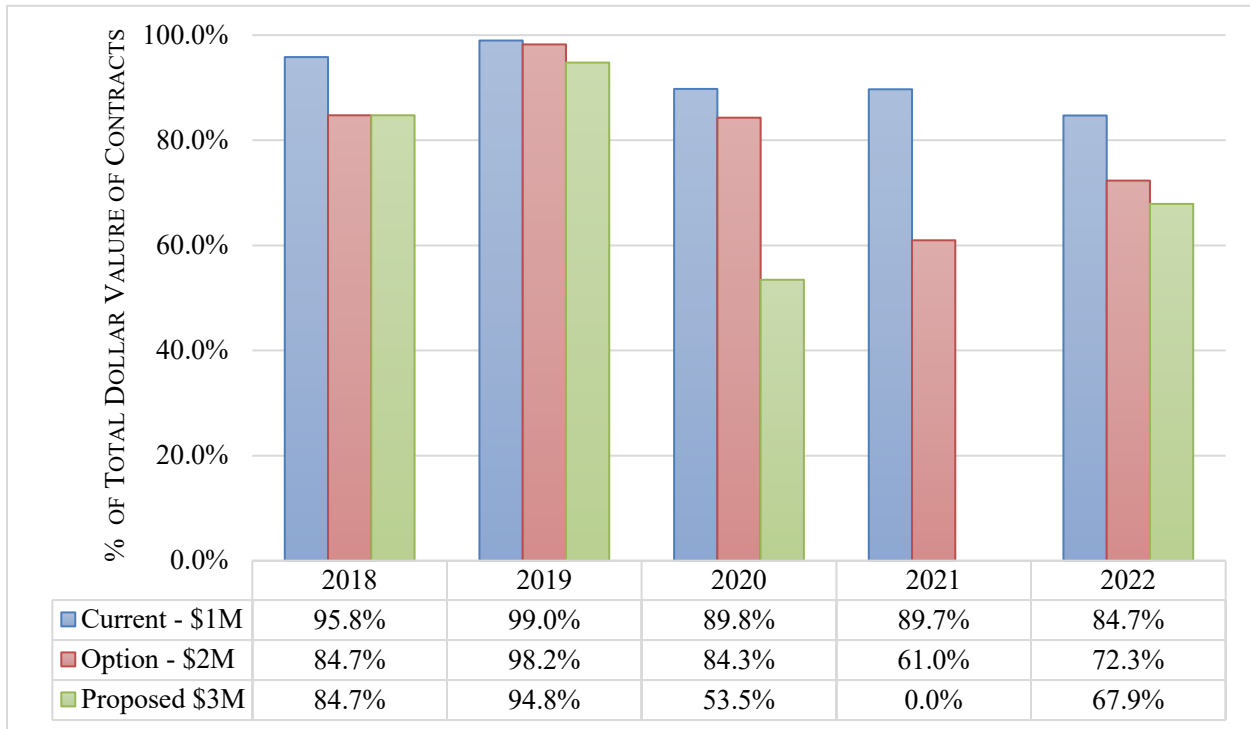
and mode (most frequently occurring value) from 2013 through 2022 as shown in the figure below. The spike in 2019 is due to procurement of consultant services for the Pure Water project as well as several large dollar value as-needed contracts.

**A&E Contracts – Average Contract Value, Median, and Mode, 2013-2022**



To understand impact of the proposed threshold increase on the number and dollar value of contracts that Council currently approves, our Office reviewed contracts procured from 2018 through 2022, and examined the proportion of those contracts that required or would require Council approval under the existing \$1.0 million threshold, the proposed \$3.0 million threshold, and a potential \$2.0 million threshold. As shown in the chart on the next page, in 2022 based on the current \$1.0 million threshold, Council reviewed and approved \$41.3 million of the \$48.7 million, or 84.7% of A&E consultant contract dollars. This included 10 of the total 26 contracts, or 38.5%. With the proposed \$3.0 million threshold in 2022, five contracts would not have required Council approval.

## A&E Contract Thresholds Requiring Council Approval, 2018-2022



The five A&E consultant contracts from 2022 that would not have required Council approval under the proposed \$3.0 million threshold totaling about \$8.2 million are listed in the following table.<sup>8</sup>

Contract Number	Contract Name	Award Date	Award Amount	Contractor
<a href="#">H207152</a>	Design of AC Water & Sewer Group 1033	1/25/2022	\$2,162,429.00	Blue Lake Civil
<a href="#">H207165</a>	Construction Management for Harbor Drive Trunk Sewer Replacement	10/11/2021	\$1,469,222.00	Arcadis U.S., Inc.
<a href="#">H207193</a>	As-Needed Consultant Services for Disposal Site Water Monitoring	9/10/2021	\$1,500,000.00	Geo-Logic Associates, Inc.
<a href="#">H2125819</a>	South Bay Water Reclamation Plant (SBWRP) Reverse Osmosis System	4/20/2022	1,303,497.00	Trussell Technologies, Inc
<a href="#">H2225956</a>	Point Loma Water Treatment Plant (PLWTP) Coastal Erosion Monitoring Program Implementation	12/1/2021	1,761,205.00	HDR Engineering, Inc.

Council’s ability to provide oversight over City contracts is important, and it is important to fully understand that Council will be reviewing and providing oversight over fewer contracts with the proposed increased thresholds. While there are time-savings associated with avoiding Council approval of smaller contracts, it is important to consider this trade off not only under the current administration, but also for future administrations. Our Office believes that realistic, updated

<sup>8</sup> These projects would continue to be reported on in the annual State of the CIP report,

thresholds with specific reporting of contracts and related information to provide Council with the timely review will be necessary for ensuring a balanced, effective process.

Therefore, transparency-related items are an important component of the streamlining package. There are two key issues for consideration. **First, if increased thresholds are approved, key information on contracts, change orders, etc., that will no longer require Council approval should be reported in a timely manner. We recommend that this information be included in the appropriate State of the CIP and/or CIP budget or operating budget monitoring reports (for O&M infrastructure-related contracts).** Our office conducts in depth reviews of these reports and they are also discussed at ATI and other Council Committees, which provides Council members the opportunity to discuss. **Second, while E&CP has included in their proposal what contract-related information will be included in reports, including EOC goals and actuals, Council can further request additional, specific information on the contracts be provided along with CIP updates, such as a summary of the EOC Program Evaluation, workforce reports, etc.**

Rising Costs for Projects

We note that the proposed threshold discussed above has not been updated since 2012, and since that time the City has experienced inflationary and other related cost increases. Based on year-over-year calculations using the Construction Cost Index (CCI) for California, \$1.0 million dollars in 2012 equals about \$1.4 million today, as shown in the table below. Similar to 2021 where the inflation rate during the COVID-19 Pandemic was 13.4%, a higher-than-average inflation rate is anticipated for 2022 as well.

**Inflation-Related Cost Increases Since 2012**

Year	CA CCI	\$ 100,000	\$ 250,000	\$ 500,000	\$ 1,000,000
2012	1.50%	\$ 100,000	\$ 250,000	\$ 500,000	\$ 1,000,000
2013	2.30%	\$ 102,300	\$ 255,750	\$ 511,500	\$ 1,023,000
2014	1.30%	\$ 103,630	\$ 259,075	\$ 518,150	\$ 1,036,299
2015	2.20%	\$ 105,910	\$ 264,774	\$ 529,549	\$ 1,059,098
2016	4.40%	\$ 110,570	\$ 276,424	\$ 552,849	\$ 1,105,698
2017	3.50%	\$ 114,440	\$ 286,099	\$ 572,199	\$ 1,144,397
2018	1.30%	\$ 115,927	\$ 289,819	\$ 579,637	\$ 1,159,274
2019	3.60%	\$ 120,101	\$ 300,252	\$ 600,504	\$ 1,201,008
2020	2.80%	\$ 123,464	\$ 308,659	\$ 617,318	\$ 1,234,637
2021	13.40%	\$ 140,008	\$ 350,019	\$ 700,039	\$ 1,400,078

**Council may wish to consider adding an inflation-related escalator to one or more of the thresholds to be updated annually based on Engineering News Records (ENR), Construction Cost Index (CCI).** This is a good fiscal practice and several other California cities are already doing this, for example, San Jose adjusts its threshold for inflation in the construction industry every July 1 (and rounded to the nearest \$10,000) based on the ENR CCI for San Francisco.

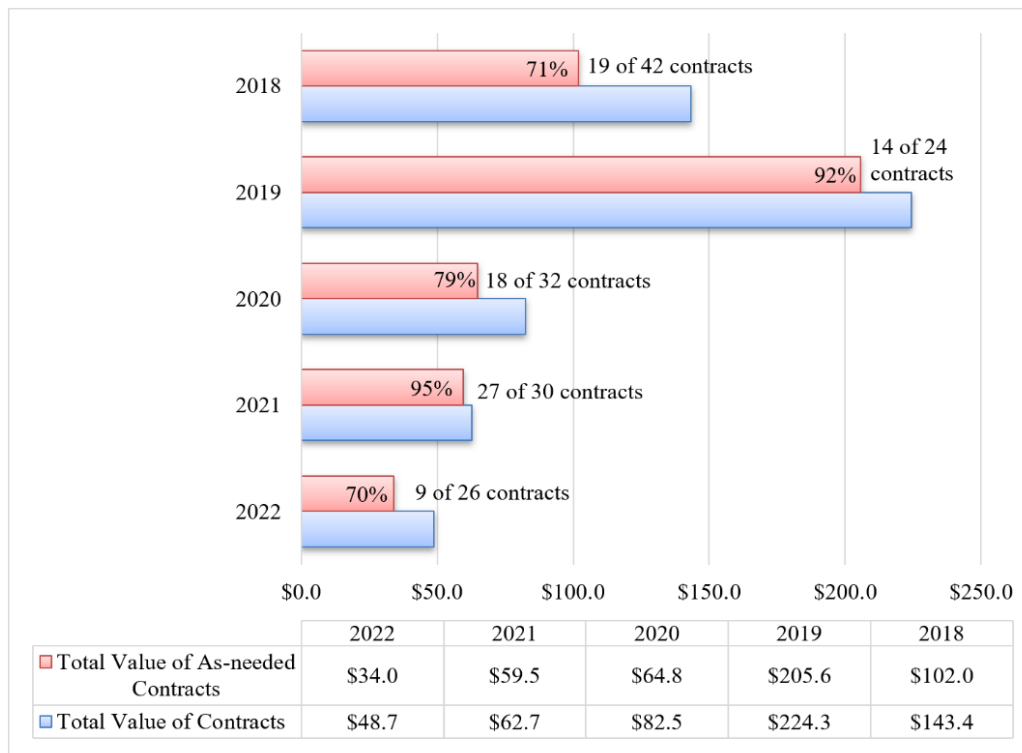
## A&E As-Needed Consultant Contracts

The City also procures A&E consultant services on an as-needed basis. As-needed consultants provide services within specific disciplines for various projects, including design, environmental and engineering, and construction management services. Procurement is the same as A&E consultant contracts; however, the work is assigned to the consultant via task orders, each with its own scope of services, cost, and schedule, as determined by department staff on a project/task-specific basis. E&CP officials told us as-needed contracts are an important CIP contracting tool as the process allows needed services to be procured under one contract rather than procuring contracts on an individual project basis.

While no changes are proposed specifically for as-needed consultant contracts, there are two key issues for consideration. First, these contracts have represented a significant portion of total A&E contracts, as shown in the chart on the next page. From 2018 to 2022, as-needed contracts ranged from 70% to 95% of total A&E contract dollar value. This includes a total of 87 contracts out of 154 total contracts, or 56% of total contracts over the five-year period. Values of as-needed contracts ranged from \$55,000 to \$75.0 million, with an average contract value of \$5.9 million.

The second issue to consider is that task orders under as needed contracts are managed and tracked on an internal shared website by the subject matter experts for each of the type of as needed contract, and there is limited transparency. For example, individual tasks are not reported on the City’s Purchasing & Contracting website but can be obtained by making a request to the appropriate department. **Council may want to consider requiring tasks issued under as-needed contracts be reported in State of the CIP reports as part of revisions to [Council Policy 000-31: Capital Improvement Program Transparency](#).**

### **Total Value of As-Needed Contracts as a Percentage of Total A&E Consultant Contracts**





### **Cumulative Limit on Consultants**

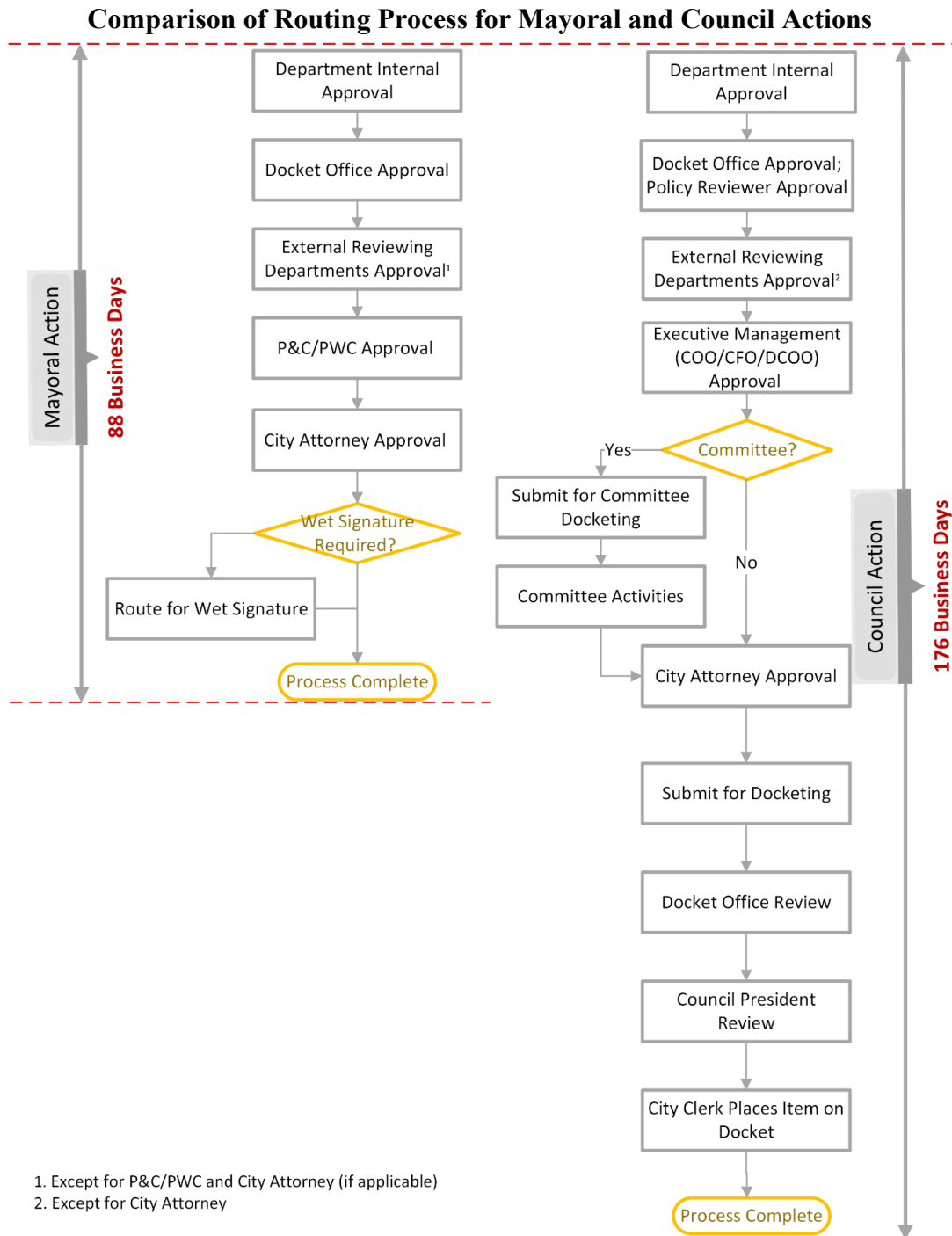
E&CP is also proposing to raise the current cumulative approval limit of \$1.0 million per year for any consultant to \$5.0 million (SDMC 22.3207 (b) (4)). Currently, all contractors above the \$1.0 million limit are required to seek Council approval for all future awards within that fiscal year, regardless of dollar amount. The original intent of this limit was to ensure all consultants are selected via an unbiased process and that new contractors are not prevented from competing with contractors currently working for the City. Centralizing the City’s contracting in 2006 and establishing policies to ensure all consultants are selected via an unbiased selection process has safeguarded the competitive bid process. E&CP provided a list of 12 existing A&E contracts which will be affected by the increase to the cumulative threshold, as shown in the following table.

### **Existing Contracts Effected by the Increased Cumulative Consultant Contract Limit**

<b>Contract No.</b>	<b>Contract Name</b>	<b>Award Date</b>	<b>Award Amount</b>	<b>Consultant</b>
<a href="#">H166723</a>	Off/On FHWA System Bridge Rehabilitation	2/17/2017	\$174,581.00	Michael Baker International, Inc.
<a href="#">H166714</a>	Three As-Needed Landscape Architecture Design Services Contracts (Contract 2)	3/17/2017	\$3,000,000.00	Schmidt Design Group, Inc.
<a href="#">H156535</a>	Design for Salk Neighborhood Joint Use Development	4/13/2017	\$500,000.00	Michael Baker International
<a href="#">H176810</a>	As-Needed Traffic Control Design Services - Contract 1	6/15/2017	\$1,000,000.00	Kimley-Horn & Associates, Inc.
<a href="#">H176811</a>	As-Needed Traffic Control Design Services - Contract 2	6/19/2017	\$1,000,000.00	Nasland Engineering
<a href="#">H176818</a>	As-Needed Environmental Professional Services - Contract 2	8/22/2017	\$1,625,000.00	Helix Environmental Planning, Inc.
<a href="#">H176830</a>	As-Needed Civil Engineering Services - Contract 2	10/9/2017	\$1,500,000.00	Psomas
<a href="#">H197050</a>	Design of the La Media Road Improvements Project	4/12/2019	\$665,114.00	Rick Engineering Company
<a href="#">H185789A</a>	Design of El Camino Real Bridge/Road Widening	8/28/2019	\$2,449,712.00	Rick Engineering
<a href="#">H197062</a>	Design of Streamview Drive Improvements Phase II	1/10/2020	\$1,534,557.00	Rick Engineering
<a href="#">H197088</a>	As-Needed Architectural Services - Contract 1	5/1/2020	\$2,500,000.00	Platt/Whitelaw Architects, Inc.
<a href="#">H207140</a>	As-Needed Civil Engineering Services (Contract 1)	4/19/2021	\$3,000,000.00	Michael Baker International, Inc.
<a href="#">H2125802</a>	Design of Gatewood Hills Pump Station	5/18/2022	\$889,935.75	WSP USA, Inc.
<a href="#">H2225966</a>	As-Needed Plan Check and Inspection Services - Contract 1	5/31/2022	\$250,000.00	NV5, Inc.

## Assessing Projected Savings from Implementing Municipal Code Amendments

As previously noted, E&CP estimates an average savings of four to six months on project schedules, based on increasing Mayoral signature authority thresholds which will reduce the number of contract-related items requiring Council approval. The figure below *is based on data provided by E&CP* and illustrates the routing processes for contract-related items that are required to go to Council (Council actions) compared with those where the Mayor has signature authority (Mayoral actions).



Mayoral actions take about 88 working days and Council actions take an additional 88 days (or 4 months) for a total of 176 working days. According to E&CP officials, the higher end of the four to six months associated with Council actions applies in cases where a contract amendment is required, which occurs more than half of the time and can result in projects going through the Council approval process twice. Other visits to council for a project could include hiring project-specific construction managers, real estate acquisition, multiple contract amendments, budgeting purposes, or accepting grants. Additional time is also required if the action requires an ordinance, such as a contract with a duration longer than five years, then the waiting period between Council actions is 30 days.

The estimated time savings accounts for the time it takes to:

- Prepare the additional documents required by City Council, including staff reports and presentations.
- Route the action through additional reviewers (responding to any comments as necessary).
- Docket for committee (ATI only has 10 meetings per year), City Council, and sometimes a required second reading.

E&CP indicated the savings does not reflect other potential additional delays, such as contract award duration if this process coincides with a Council recess.

Our Office notes that the four-to-six month timeline for Council actions seems high if it is being attributable mainly or solely to docketing process-related delays, and other aspects may also be contributing to the extended times here, such as increased complexity of large dollar contracts (which require Council approval). **To the extent there are long delays associated with working through the Council approval/docketing process, we can note that Council may wish to look at ways to speed-up the docketing process for infrastructure-related contracts.**

### **Issues for Council Consideration**

If Council would like to move forward with the proposed streamlining measures, we note several additional actions that could further support successful streamlining and enhance transparency and accountability. Most of these have been included as bolded text in the previous sections, but we list them together here to assist Council's consideration and discussion.

- Council may wish to consider adding an inflation-related escalator to one or more of the thresholds to be updated annually based on Engineering News Records (ENR), Construction Cost Index (CCI). This is a good fiscal practice and several other California cities are already doing this, for example, San Jose adjusts its threshold for inflation in the construction industry every July 1 (and rounded to the nearest \$10,000) based on the ENR CCI for San Francisco.
- Proposed streamlining includes a measure to provide the Mayor the authority to issue consultant contract amendments up to \$200,000 or 10.0% of the contract, whichever is greater (SDMC 22.3018). Council may wish to consider adding a cap for the consultant contract amendment threshold above which amendments would be required to come to Council on particularly large projects.
- Transparency-related items are an important component of the streamlining package:

- Key information on contracts, change orders, etc., that will no longer require Council approval, should be reported in a timely manner, for example within the quarter in which they are awarded/executed. We recommend that this information be included in the appropriate State of the CIP and/or CIP budget or operating budget monitoring reports.
  - While E&CP has included in their proposal what contract-related information will be included in reports, including EOC goals and actuals, Council can request additional, specific information on the contracts that it would like to have included, such as a summary of the EOC Program Evaluation, workforce report, etc.
- Council may want to consider requiring tasks issued under as-needed and JOC contracts be reported in State of the CIP reports as part of revisions to [Council Policy 000-31: Capital Improvement Program Transparency](#).
  - Council may wish to consider recommending a new Key Performance Indicator (KPI) to show the impact of raising contract-related thresholds on project delivery time and/or costs, such as average number of days to award a consultant agreement. E&CP's recently revised KPIs are designed to look at overall project delivery, including percentage of CIP projects delivered on the baseline project schedule. E&CP's Project Management Office (PMO) is responsible for tracking and reporting transparency requirements as a part of the State of the CIP reports. Purchasing & Contracting has a KPI for average number of days to award a contract.
  - To the extent there are long delays associated with working through the Council approval/docketing process, Council may wish to look at ways to speed-up the docketing process for infrastructure-related contracts.

## CONCLUSION

As the City deals with budgetary and resource constraints, aging and deteriorating infrastructure, and increasing urgency to achieve strategic goals, it is important to underscore the importance of streamlining CIP delivery to accommodate growth, build organizational capacity, and efficiently manage and deliver capital projects. In other words, have limited resources go farther. From the importance of infrastructure to the public health and economy of San Diegans and visitors, to the significant and growing \$4.3 billion backlog of capital projects, to the increasing capital budget especially given unprecedented state and federal funding opportunities, to concerns about rising costs for projects due to inflation and other supply chain, pandemic-related challenges, the importance of effectively delivering City infrastructure cannot be overstated.

These proposed streamlining measures will increase Mayoral thresholds and require fewer contract-related items needing Council approval. In theory, this will get needed contracts out the door faster, enabling engineers to conduct project-related duties in moving projects forward, and ultimately reducing both schedule and costs for projects. This provides a benefit in that project time and cost savings can be used towards other needed capital projects.

However, there is also a benefit associated with allowing Council to review and approve contracts and contract-related items to ensure transparency and accountability. And it is important to fully understand that Council will be reviewing and providing oversight over fewer contracts with these

changes. As Council weighs these tradeoffs, it is important to consider impacts not only under the current administration, but also future administrations. Our Office believes that realistic, updated thresholds must be bundled with specific reporting requirements for contracts and related information to ensure a balanced, effective process that allows Council to continue to protect transparency and provide oversight.

If Council moves forward with the proposed streamlining measures, we recommend that it also consider several related issues, as summarized above, to support successful streamlining and enhance transparency and accountability.



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## Other Related Process Improvements and Streamlining Efforts

Importantly, E&CP is taking a comprehensive approach to developing needed organizational capacity to efficiently deliver the growing CIP. As part of the FY 2023 Approved Budget, the new Strategic Capital Projects Department (SCP) was created to help improve management of larger projects, such as Pure Water Phases 1 and 2.<sup>9</sup> The Pure Water program has been managed successfully to date and could be used as a model or guide for other large projects and programs.

In addition, E&CP is working to streamline and improve internal operations to safely and effectively increase CIP execution from currently levels to an anticipated \$1.0 billion annually. To help accomplish this goal, the Department has procured a consultant (WSP) to study current operations, benchmark with other municipalities in California, and ensure all applicable industry best practices are considered with the goal of making recommended improvements to organizational structure, processes, financial/budget procedures, and staffing. E&CP also plans to develop a more comprehensive technical training program and formal internal rotation program for entry level engineers within the Department. This will help to engage, develop, and mentor staff.

Other key steps E&CP has taken to improve internal process include:

- Establishing a Project Management Office (PMO) to provide oversight and accountability for the CIP.
- E&CP reorganized its operations to adapt to increased demand while increasing service levels and efficiencies. The FY 2022 reorganization was the first phase of the Department's organizational plan that will help refocus the department "back to basics" while concentrating on its core purpose of delivering capital infrastructure and the Mayor's strategic goals. E&CP noted that the restructure will represent a significant step towards streamlining operations.
- E&CP along with the rest of the engineering and construction industry has seen an increase in demand and continues to have difficulty finding talent and filling vacancies, however through recruitment recently our vacancy rate has seen improvement from where it was the last several years. As of September 7, 2022, E&CP has a total of 142.50 vacant FTEs with a vacancy rate of 17.47%. This report includes FY 2023 new positions.
- Revising CIPRAC membership and responsibilities.
- Collaborating with P&C to identify additional ways to streamline the bid and award process, including implementing standing coordination meetings to discuss contract lookahead and anticipated issues and related remedies. E&CP has also retained a consultant to examine internal processes to identify areas for potential efficiency improvements, including the bid and award process, which is being conducted in collaboration with P&C.

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<sup>9</sup> The Pure Water project uses advanced water purification technology to produce potable water from recycled water. Pure Water is intended to provide a safe, secure, and sustainable local drinking water supply for San Diego. Based on the Public Utilities Department's most recent water demand projections, Pure Water will provide nearly half of the City's drinking water supply in 2035.

- Developing a Council Policy for Customer Service, which is being revised and will be heard at a future ATI Committee meeting.
- Revising [Council Policy 800-14: Prioritizing CIP Projects](#) which is anticipated to be discussed at ATI Committee at the November 2022 meeting.
- Participating in the California Multi-Agency CIP Benchmarking Study to gain insights from other jurisdictions.
- Working with industry contacts and coordinating through outreach efforts to improve external capacity to deliver the City's CIP. E&CP noted that increased awareness of the growing size of the CIP program, what projects will be available, and future needed contracts helps the private consulting and construction industries to plan for and grow capacity.