



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Matt Cano

SUBJECT: CAPITAL IMPROVEMENT
PROGRAM DELIVERY SCHEDULE

DATE: May 25, 2018

Approved

D. D. S. L.

Date

5/25/18

BACKGROUND

This memorandum responds to the Mayor and City Council's request at the Budget Study Session for the City's Capital Improvement Program on May 11, 2018 to evaluate which projects in the 2018-2019 Proposed Capital Budget and 2019-2023 Capital Improvement Program could potentially be deferred until the construction bidding environment becomes more competitive.

As discussed in the City Council study session, the City has experienced a number of ebbs and flows relating to the price of construction over the past few decades. These changes in the price of construction are often directly related to economic cycles. For example, in the mid 2000's, as the economy was booming, the City was considering severely reducing the scope of work for several building projects that were part of the then recently passed bond measures. However, when the Great Recession hit, bid prices became more competitive and the City was able to deliver many of the projects as originally scoped. These projects also helped ease the impacts of the Great Recession by infusing money into the local economy through municipal construction projects.

Currently, the region is in the midst of a strong economic cycle and the City is seeing an increase in bid prices. For example, on average, storm and sanitary projects are experiencing construction price increases of approximately 15% over the past few years. Paving projects that benefited from lower crude oil prices in 2014-2017 may see increased bid prices as the price of oil has risen over the past year.

ANALYSIS

The City's 2018-2019 Proposed Capital Budget totals \$781.5 million and the 2019-2023 Proposed CIP totals \$3.1 billion. Additionally, the City awards approximately 80 construction projects per year. Given these statistics combined with the increasing construction prices, it is

important that the City remain fiscally responsible and ensure that capital funding is used strategically. Part of being fiscally responsible is to continually evaluate whether the City should move forward now on capital projects, or whether we should wait for a more favorable bidding climate. Given the complexity of the City's capital program, there is not a "one size fits all" answer to this question. For example, there are projects such as the Airport's Interim Facility to add four gates that need to be completed as soon as possible in order to allow our Airport to meet increasing air service level demands. Additionally, there are health and safety projects such as playground renovations that need to be completed and there are several grant-funded projects in the CIP with strict implementation deadlines. However, there are likely projects that could be delayed in anticipation of a more favorable bidding climate. Ongoing evaluations of project delivery timelines and schedules based on operational needs already exist in many departments. For example, the Environmental Services Department has a robust program at the Regional Wastewater Facility that continually evaluates project timing.

Moving forward, the Capital Improvement Program partner departments in the City will continue to evaluate opportunities to shift project schedules. Criteria that will be part of this consideration will include, but not be limited to, the following.

- **Bidding climate:** Staff will consider economic forecasts and evaluate whether a more favorable bidding climate is projected in the near future. Additionally, staff will also consider the possibility that it may be important to bid the projects now as there may not be a foreseeable end to the construction pricing increases. Staff will also evaluate the feasibility of completing a project's design and then "shelve" that project until the bidding environment becomes more competitive.
- **Grants/Finances:** Staff will consider whether there is a grant or other financial deadline for completion of specific projects.
- **Revenue generating:** Staff will consider cases where new facilities are constructed and will generate revenue to recover the cost of construction for enterprise departments such as the Airport and Environmental Services, as well as for departments that rely on revenue generation to fund a portion of their services such as Parks, Recreation & Neighborhood Services.
- **Health and safety:** Staff will evaluate whether there is a public health and safety need to implement a specific project.
- **Operational and maintenance efficiency:** Staff will evaluate whether the project will enhance the City's operations and maintenance capabilities and weigh this against the potential project cost escalations.
- **Regulatory compliance:** Staff will evaluate whether there is a need to complete the project on the current schedule due to regulatory requirements or the significant investment in regulatory permitting and approvals that are time sensitive.

As mentioned above, this continued evaluation will be part of the regular conversations Public Works has with the other capital project delivery departments, and the City Manager's Office, as we develop schedules for new projects and move forward with existing projects.

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COORDINATION

This memorandum has been coordinated with the Departments of Environmental Services, Transportation, Airport, and Parks, Recreation and Neighborhood Services, and the City Manager's Budget Office.

/s/

MATT CANO

Director of Public Works

For more information, please contact Matt Cano at 535-8477