

Agenda Report

TO: CITY COUNCIL
THROUGH: FINANCE COMMITTEE

JANUARY 24, 2005

FROM: CITY MANAGER

SUBJECT: AWARD OF THE GENERAL CONTRACTOR CONTRACT TO CLARK CONSTRUCTION GROUP-CALIFORNIA, LP, FOR THE SEISMIC UPGRADE AND REHABILITATION OF THE CITY HALL BUILDING

RECOMMENDATIONS

It is recommended that the City Council:

1. Accept the bid submitted to the City on November 4, 2004, by Clark Construction Group-California, LP, in response to the specifications for general contracting services for the seismic upgrade and rehabilitation of the City Hall building;
2. Reject all other bids received;
3. Authorize the City Manager to execute the contract with Clark Construction Group-California, LP, for an amount not-to-exceed \$79,899,000 prior to the bid expiration date of February 4, 2005;
4. Increase the appropriation to Project number 71904 by \$24,321,083. Funding for this increase will come from:
 - a. the General Fund \$9,321,083
 - b. the Light and Power Fund \$9,000,000
 - c. fund raising, private/foundation contributions and/or grants \$6,000,000; and
5. Direct the City Attorney to prepare an Ordinance increasing the Light and Power General Fund Transfer for the City Hall project from the current 2.5% to 10.15% for fiscal year 2005 only, returning the General Fund Transfer to 2.5% effective for fiscal year 2006. This increase will bring the total General Fund Transfer for fiscal year 2005 to 16.0%, the maximum allowable under the City's Charter.

CITY HALL RESTORATION OVERSIGHT COMMITTEE RECOMMENDATIONS

During the December 8, 2004, meeting of the City Hall Restoration Oversight Committee, two motions were passed unanimously. The intent behind both motions was to proceed with the full scope of the project and resulted in the following action:

Action: Consider the Clark Construction low bid as reasonable, responsive and valid;

Accept the Clark base bid of approximately \$79,899,000;

Recommend that City Council appropriate an additional \$24,321,083 into the City Hall project budget in order to complete the full project all at the same time;

Communicate to City Council that the \$79,899,000 Clark bid meets the charter given to the Oversight Committee by City Council.

BACKGROUND

In 1990, the Infrastructure Subcommittee recommended that no further restoration work be performed to City Hall until a seismic analysis was completed. A subsequent seismic risk analysis performed on the City Hall building strongly recommended that the City Hall building be seismically strengthened.

On April 22, 2002, the City Council approved the recommendation presented by the City Hall Restoration Oversight Committee to seismically retrofit (via a base isolator system) and rehabilitate the City Hall building. The project budget equated to \$88,795,000, excluding \$3,677,027 in prior expenditures.

On August 11, 2003, the City Council approved revisions to the project scope and corresponding reductions in costs by \$5,268,000 and increased the project budget by \$4,478,000. The project budget increased from \$88,795,000 to \$93,273,000.

BIDDING MARKET ANALYSIS

Throughout the last two years and predominately in 2004, the construction industry has experienced rapid escalation in the cost of building materials as well as construction in general. It appears that escalation in the construction market will continue into the foreseeable future. As a result of the conditions listed below, higher than budgeted bids were submitted for the City Hall project.

1. **Construction Costs are Driven by Demand:** Several major public and institutional construction programs are either in construction or slated to commence, including the healthcare seismic replacement program, the State courts program, and school construction and renovation programs that have increased the demand for construction. Increased demand has resulted in extremely high bids submitted on projects. Staff does not see any reduction in demand for construction services in California over the next few years.
2. **Material Cost Escalations Over the Past 12 Months:** Material costs which have remained fairly constant over the past ten years have risen approximately 20% over the past twelve months. Material cost escalations are broad based and not limited to a few products. The most dramatic material increases have been seen in key construction materials such as steel, wood, and concrete products. Demand

domestically and overseas has fueled the run-up in material costs. The biggest issue affecting bids is the uncertainty over what the cost of materials will be over the next few years. For long-term projects, contractors have to absorb a higher degree of risk in their bids and are submitting escalated bids accordingly.

3. Equipment Replacement, Rental Costs and Rising Costs of Fuel: Strong demand, material costs and costs of petroleum based products are pushing up costs of construction related equipment. Due to aging construction fleets and increased demand, rental rates have increased during the second quarter of 2004 to offset the cost of equipment replacement. Added to these costs are the rising costs of petroleum-based products which are expected to continue over the next few years.
4. Escalated Costs of General Conditions and Overhead: Significant risks associated with material procurement, delivery, and material cost escalations have driven up the costs of general conditions and overhead on projects. Site establishment, supervision and management costs can be increased due to shortages related to material and availability of skilled labor.
5. Increase to Contractor Profits: The risk of construction has become more significant over the past six months due to costs and shortages of materials and the demand on the available labor pool. Construction demand has allowed general contractors to increase bid prices to cover the increased bidding risk.

COMPETITIVE BIDDING PROCESS

The general contractor selection process commenced in July, 2004, as follows:

1.	Local Pasadena outreach workshop	July 7, 2004
2.	Advertise general contractor pre-qualification packages	July 20, 2004
3.	Pre-qualified general contractors were notified	August 16, 2004
4.	Mandatory bid walk	August 26, 2004
5.	General contractor bids due	November 4, 2004
6.	General contractor bids expire	February 4, 2005

The general contractor specification bid package consisted of a base bid, and bid alternates/allowances. The lowest bidder was determined by the full scope of the bid specifications, including the base bid and bid alternates/allowances.

1. The base bid consisted of required scope of work topics—which will allow staff to reoccupy the City Hall building in 2007—including:
 - a) Seismic strengthening – basement demolition and base isolator installation
 - b) Mechanical, electrical, plumbing, fire sprinkler and alarm systems
 - c) Interior tenant improvements
 - d) Offsite utility connections
 - e) Data/telecommunication installation

2. The potential general contractors also provide pricing for constructing bid alternates/allowances, which could be added to the construction efforts if budgetary funds become available. The bid alternate/allowance categories are as follows:
- a) Historic restoration – interior and exterior
 - b) Site work/landscape – softscape and hardscape
 - c) Interior tenant improvements (nonrequired areas – basement level finishes, 4th level finishes, miscellaneous areas)
 - d) Nonessential technology improvements

Three of the five interested firms met pre-qualification requirements and were invited to submit sealed bids on the detailed specifications for the City Hall project, including Clark Construction Group, Swinerton Builders and Hensel Phelps Construction Company. Two bids were received by the City on November 4, 2004, with Hensel Phelps declining to submit a general contractor bid. The bid results were as follows:

Rank	Company	Base Bid	Alternates/ Allowances	Total Bid Amount
1.	Clark Construction, Costa Mesa, CA	\$71,826,000	\$8,073,000	\$79,899,000
2.	Swinerton Builders, Irvine, CA	\$94,562,700	\$7,227,288	\$101,789,988

Based on the results of the bid process, the lowest responsive and responsible bidder from the pre-qualified group was Clark Construction in the amount of \$79,899,000. The lowest bidder was determined by the full scope of the bid specifications, including the base bid and bid alternates/allowances.

PROJECT BUDGET AND FUNDING

The current project budget authorized by the City Council is \$93,273,000. Based upon the lowest responsible bid, if accepted, the project budget would be required to be \$117,594,083. The difference is \$24,321,083. The budget overage is directly related to the general contracting climate and industry-wide escalation of price increases in construction materials across the board, most notably concrete, steel products, and forming lumber. The project contingency amounts to \$8,642,014 which equates to approximately 10% of building construction cost.

Staff is recommending funding this \$24,321,083 from three sources. The first is \$9,321,083 from the General Fund. Within the General Fund, staff is looking to two sources. In the coming weeks, staff will be bringing a recommendation forward to the City Council for the City to participate in a financing program supported by the League of California Cities and the County Supervisor Association of California to "pre-fund" the State's obligation to repay local government for lost Vehicle License Fee (VLF) revenues. Based upon current analysis, the City could receive between 92% and 94% of the amount the State owes and the security for the Bonds would be bond insurance and the State's

obligation to repay its commitments to local government. There would be no pledge of local credit and no obligation of the City to repay the bondholders should the State renege on its previous commitment. It is staff's belief that accepting 92 to 94 cents on the dollar against a State promise to pay, is a good financial decision for the City. In order to participate in this program on a tax exempt basis, the City would have to use its share of the proceeds for a qualified tax exempt project such as City Hall. The net proceeds from this source would be approximately \$2.4 to \$2.5 million. The remaining \$6.9 to \$7.0 million would be raised through the issuance of additional Certificates of Participation (COPs). Unless tied into another City bond issue, such as the Conference Center Project should that project be approved, these COPs would not be issued until the summer or fall of 2006 and thus the City would not be required to cover the debt service on these bonds until that time. The intent would be to issue these bonds with a 26 year maturity which would tie into the maturity of the current City Hall bonds. Depending upon interest rates and whether these bonds are issued in a fixed rate or variable rate, the annual debt service would be approximately \$460,000 to \$550,000. Staff will build this cost into the fiscal year 2006 operating budget and future General Fund financial plans. To the extent necessary, existing expenditures will be adjusted to cover the cost of this debt service.

The second source of funding would be from the Light and Power fund. Staff would recommend that the City Council approve an increase in the General Fund from the Electric Utility to the maximum 16% effective for fiscal year 2005 only. This would bring in an estimated \$8.6 million which staff would invest until needed. If staff earns 3% on these funds and can hold them until at least September 2006, the funds would grow to the needed \$9 million. Staff is recommending taking all of the funds up front for two reasons. First, the rating agencies continually look at the amount of transfer municipalities take from their utilities when reviewing both a municipality's and its utility's ratings. Staff believes that being able to demonstrate that this transfer is clearly a onetime action for a specific project would be looked upon more favorably than if the City were to spread a smaller transfer over a longer period of time. As part of the fiscal year 2006 budget and effective July 1, 2005, staff would recommend that the transfer from the Light and Power fund for City Hall be returned to the current 2.5%. Second, the City Council's cash reserve policy calls for a 30 day working capital balance in the Light and Power Fund. This is after taking into consideration existing funding obligations. Under this policy, the required working capital balance would be \$12.35 million. It is staff's intent to recommend revising this policy, as a 30 day working capital does not provide sufficient reserves for meeting cost fluctuations. As of June 30, 2004 the Light and Power working capital balance was \$86.2 million; however \$28 million represents funds that have been committed to capital improvement projects but not yet spent, and \$20 million is restricted energy and transmission funds based upon the City's rate ordinance. This leaves a working capital balance of approximately \$38.2 million. As such, a one time increase in the transfer in order to capture an additional \$8.6 million would not jeopardize the funding status of the Light and Power fund. Staff is not recommending taking more funds from Light and Power because of other capital improvement requirements that are being identified as part of the Distribution System Master Plan.

The third source of funding would come from grants, fund raising and donations for specific elements of the City Hall Project. These elements would include such items as the historic restoration components, the courtyard, gardens and fountain. After consultation with members of the community and experts in fund raising, it is staff's belief that these components of the project lend themselves to fund raising efforts and private or foundation donations and available grant opportunities.


FISCAL IMPACT

The fiscal impact of the City Council's action would be to increase the cost of the City Hall project by \$24,321,083, bringing the total project cost to \$117,594,083. Funding for this increase would come from three sources, the General Fund (\$9,321,083), the Light and Power Fund (\$9,000,000) and fund raising, donations, and grants (\$6,000,000). The \$9 million from the Light and Power Fund will come from a one-time increase to the General Fund Transfer which would generate an initial \$ 8.6 million. These funds would be invested in the City's pool portfolio until September 2006 at which time the funds would grow to \$9 million. Approximately \$6.9 to \$7 million of the General Fund's commitment would be financed by the issuance of COPs and would be issued in the summer or fall of calendar year 2006. The debt service on this would be \$460,000 to \$550,000 annually for 26 years. Funds to cover this cost would come from improved General Fund revenues or budget reductions. Staff will bring specific recommendations forward to the City Council as part of the fiscal year 2006 recommended operating budget.

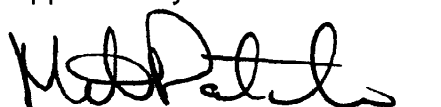
Respectfully submitted,


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From: Audrey O'Kelley [aokelley@msn.com]
Sent: Monday, January 24, 2005 5:01 PM
To: jrodriguez@cityofpasadena.net
Cc: David T. Romney
Subject: WPRA statements re: Arroyo Parkway Lights and City Hall Project

City Hall:

The base isolation retrofit should be reconsidered in view of accelerating costs. These costs cannot be justified if city services will have to be cut or if projects that would bring revenue into the city delayed. An example of the latter is the Convention Center project.

Since the building is a replica, perhaps the city should consider rebuilding another replica at \$300 to \$400 per square foot. Other less expensive earth quake damage prevention definitely should be considered.

Arroyo Parkway Design:

Recent meetings attended by residents and business interests showed that there is quite a lot of dissention regarding the lights for this project. Because of this and because of the limited funds at this time we feel no decision should be made this evening. This issue should be revisited when there is time for full and thorough discussion.

Thank you.

David T. Romney
President
WPRA

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