

TO: City Council
FROM: Doug Monn, Public Works Director
SUBJECT: Change Order Procedures for Wastewater Treatment Plant Upgrade
DATE: August 7, 2012

NEEDS: For the City Council to consider procedures regarding authorization of possible change orders during construction of the wastewater treatment plant (WWTP) upgrade.

FACTS:

1. The City is preparing to advertise the WWTP upgrade for construction bids this fall. Construction will cost an estimated \$40 million in 2014 dollars and require approximately 27 months.
2. Construction will occur at an active and crowded treatment plant site. Construction includes extensive underground work and complex mechanical, electrical, and chemical systems. Although the City has taken extra precautions to eliminate uncertainties and potential surprises, there may be site conditions that differ from the plans and specifications and warrant changes to the cost and duration of construction.
3. A change order is a written authorization to alter, amend, or deviate from the awarded construction contract. Change orders may result in additions or deductions to the construction cost. There may be a number of change orders over the course of construction.
4. Efficient processing of change orders is essential to keep construction on schedule and within budget. Delayed processing of change orders can lead to project delays, added cost, and unnecessary disputes.
5. The City's *Purchasing and Payment Procedures Manual*, last updated by City Council in November 2009, authorizes the City Manager to approve change orders (in total) up to 10% of the awarded contract amount. The manual requires change orders in excess of this limit to be approved by the City Council.

ANALYSIS &

CONCLUSION: The City's existing procedure of limiting City Manager approval of total change orders to 10% of the awarded contract amount is adequate for the WWTP upgrade. The City has taken extra precautions (e.g., soil studies, potholing of existing utilities, constructability and biddability reviews) to eliminate uncertainties and ambiguities from the plans and specifications. The City hired a professional construction management firm, the Covello Group, whose purpose is to effectively manage the project to limit the City's exposure to change orders. Staff's goal is to complete the project with total change orders that amount to less than 5% of the awarded contract amount.

In order to prevent delays that could result in additional project cost and/or claims by the Contractor, the City Manager will need to delegate authority to

approve smaller individual change orders to the Public Works Director, Wastewater Division Manager, and Construction Manager. Staff recommends the following procedures be authorized specifically for the WWTP upgrade. These recommendations are based on a survey of other cities that have recently completed similar sized projects.

Recommended Procedures

- ❖ The Public Works Director is authorized to approve individual change orders up to \$75,000. The City Manager must approve individual change orders greater than \$75,000.
- ❖ The Wastewater Division Manager is authorized to approve individual change orders up to \$20,000.
- ❖ In the event the contractor encounters a time-sensitive problem where time is not available to negotiate a settlement in advance of performing the work, the Construction Manager is authorized to issue a field order to a maximum value of \$10,000 only if the Wastewater Division Manager or Public Works Director can't be reached. All work done under a field order will be completed on a time and material basis. The total amount of field orders the Construction Manager may issue for the project duration without prior City approval shall not cumulatively exceed \$100,000.
- ❖ The City Council will receive a monthly update on change order status.

POLICY

REFERENCE: Integrated Water Resources Plan, Waste Discharge Requirements Order No. R3-2011-002, Time Schedule Order No. R3-2011-0213

FISCAL

IMPACT: The proposed procedures will not increase the total permissible amount of change orders and should not adversely affect the project budget or Sewer Enterprise Fund. The total project cost is currently estimated at \$49.9 million in 2014 dollars. This includes a \$1,200,000 change order allowance, which is equal to 3% of the probable construction costs. Any additional change orders may be offset by other spending reductions.

OPTIONS:

- a. Adopt Resolution No. 12-XXX, adopting procedures regarding change orders during construction of the WWTP upgrade;
- b. Amend, modify or reject the above options.

ATTACHMENT:

Resolution No. 12-XXX

Report prepared by Matt Thompson, Wastewater Division Manager

RESOLUTION NO. 12-XXX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASO ROBLES
ADOPTING PROCEDURES REGARDING CHANGE ORDERS DURING CONSTRUCTION OF
THE CITY'S WASTEWATER TREATMENT PLANT UPGRADE

WHEREAS, the City is preparing to advertise the wastewater treatment plant (WWTP) upgrade for construction bids in fall 2012. Construction will cost approximately \$40 million in 2014 dollars and require approximately 27 months.

WHEREAS, construction will occur at an active and crowded treatment plant site. Construction includes extensive underground work and complex mechanical, electrical, and chemical systems. Although the City has taken extra precautions to eliminate uncertainties and potential surprises, there may be site conditions that differ from the plans and specifications and warrant changes to the cost and duration of construction.

WHEREAS, there may be a number of change orders over the course of construction. Efficient processing of change orders is essential to keep construction on schedule and within budget.

WHEREAS, the City's existing *Purchasing and Payment Procedures Manual* authorizes the City Manager to approve change orders (in total) up to 10% of the awarded contract amount. Change orders in excess of this limit must be approved by the City Council.

WHEREAS, in order to prevent delays that could result in additional project cost and/or claims by the contractor, the City Manager will need to delegate authority to approve smaller individual change orders to the Public Works Director, Wastewater Division Manager, and Construction Manager.

THEREFORE, BE IT RESOLVED AS FOLLOWS:

SECTION 1. The City Council does hereby adopt the following procedures regarding change orders during construction of the City's wastewater treatment plant upgrade:

- a. The Public Works Director is authorized to approve individual change orders up to \$75,000. The City Manager must approve individual change orders greater than \$75,000.
- b. The Wastewater Division Manager is authorized to approve individual change orders up to \$20,000.
- c. In the event the contractor encounters a time-sensitive problem where time is not available to negotiate a settlement in advance of performing the work, the Construction Manager is authorized to issue a field order to a maximum value of \$10,000 only if the Wastewater Division Manager or Public Works Director can't be reached. All work done under a field order will be completed on a time and material basis. The total amount of field orders the Construction Manager may issue for the project duration without prior City approval shall not cumulatively exceed \$100,000.
- d. The City Council will receive a monthly update on change order status.

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 7th day of August 2012, by the following votes:

AYES:
NOES:
ABSTAIN:
ABSENT:

ATTEST:

Duane Picanco, Mayor

Caryn Jackson, Deputy City Clerk