



COUNTY OF SAN LUIS OBISPO
BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL

(1) DEPARTMENT Administrative Office	(2) MEETING DATE 7/25/2017	(3) CONTACT/PHONE David E. Grim / 781-5011	
(4) SUBJECT Request to adopt and file recommended responses to 2016-17 Grand Jury Report – “An Innovative Approach to Cost and Scheduling Challenges in County Capital Projects.” All Districts.			
(5) RECOMMENDED ACTION It is recommended that your Board: (1) Adopt and file recommended responses to the San Luis Obispo County Grand Jury's 2016-17 report titled “An Innovative Approach to Cost and Scheduling Challenges in County Capital Projects,” and (2) Direct the Clerk to forward the approved responses to the Presiding Judge and the Grand Jury by August 21, 2017.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT ☒ Consent ☐ Presentation ☐ Hearing (Time Est. _____) ☐ Board Business (Time Est. _____)			
(11) EXECUTED DOCUMENTS ☐ Resolutions ☐ Contracts ☐ Ordinances ☒ N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: ☐ 4/5th's Vote Required ☒ N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY ☒ N/A Date _____	
(17) ADMINISTRATIVE OFFICE REVIEW This item was prepared by the Administrative Office.			
(18) SUPERVISOR DISTRICT(S) All Districts.			



COUNTY OF SAN LUIS OBISPO

TO: Board of Supervisors

FROM: Administrative Office / David E. Grim

DATE: 7/25/2017

SUBJECT: Request to adopt and file recommended responses to 2016-17 Grand Jury Report – “An Innovative Approach to Cost and Scheduling Challenges in County Capital Projects.” All Districts.

RECOMMENDATION

It is recommended that your Board:

- (1) Adopt and file recommended responses to the San Luis Obispo County Grand Jury's 2016-17 report titled “An Innovative Approach to Cost and Scheduling Challenges in County Capital Projects,” and
- (2) Direct the Clerk to forward the approved responses to the Presiding Judge and the Grand Jury by August 21, 2017.

DISCUSSION

On June 22, 2017, the Grand Jury issued a report titled “An Innovative Approach to Cost and Scheduling Challenges in County Capital Projects.” The report looks at issues related to the management of capital projects and whether they are delivered on time and under budget, with a specific focus on the design-build method of project delivery.

The Grand Jury report includes six findings and three recommendations. The Board of Supervisors is required to respond to Findings 1, 3, 5, and 6, and Recommendations 1, 2, and 3. The Department of Public Works is requested to respond to Findings 1, 2, 4, 5, and 6, and Recommendations 1, 2, and 3.

All responses must conform to the response language and timelines required under Penal Code section 933. The Board must respond to the Presiding Judge and the Grand Jury within 90 days of issuance of the report, which in this case is August 21, 2017.

I. Recommended Responses from the County Department of Public Works:

Finding 1. “The first public announcement of the cost and schedule of an approved project is an initial estimate, which is usually lower than the eventually approved budget for the project based on the building contract costs and similar factors.”

The County Department of Public Works agrees with this finding. Project initial estimates can increase over time due to scope refinement and construction cost escalation.

Finding 2. "Major factors contributing to the increase in final cost/completion over original estimates include the passage of time between initial estimates and the execution of project contracts, changes in the cost of funds, late discovered need for changes of design, unavailability of necessary materials, unexpected construction/labor problems, and changes in relevant regulations."

The County Department of Public Works partially disagrees with this finding. While the County has dealt with issues on contract changes and material availability/delays, the County has not seen work stoppage or delays due to construction labor problems.

Finding 4. "California law imposes detailed process requirements on all counties awarding building contracts for capital projects, with the clear intent of eliminating the possibility that anyone could allege bias, nepotism, or preferential treatment in the awarding of any public contract."

The County Department of Public Works agrees with this finding. Additional contract regulations are created by the State Legislature annually which require on-going staff revision and review of County contract documents to ensure compliance. This is the case regardless of bidding mechanism.

Finding 5. "As the State authorizes it and as the County proposes to use it, the Design-Build project delivery method has generally proven in practice to expedite project completion and enable more cost-effective contracting with less financial and other risk to owner."

The County Department of Public Works partially disagrees with this finding. While Public Works expects to see an expedited delivery system with a mechanism for cost control, we cannot assure that all risk will be removed from the County. Site development conditions, either geotechnical or environmental, are items the County will still need to develop specific criteria for use under Design-Build. Moreover, the County may be subject to owner-directed changes during the implementation of the project through the Design-Build team if requirements are not well-defined. Either case will potentially extend construction implementation or increase costs if not defined in the Design-Build project Request for Proposal (RFP) package.

Finding 6. "While experts generally indicate that the Design Build method can be useful for all types and sizes of projects, under California law there is a limit: If County policy permits, the County may use Design-Build for any vertical project with a price tag that will exceed one million dollars."

The County Department of Public Works agrees with this finding. However, all projects may not fit the Design-Build process. For instance, if the County seeks specific control of final design features of the project, staff may not want to rely on a Design-Build team to determine the outcome of that design. Traditional Design-Bid-Build would still be an option available to the County.

Recommendation 1. "Recognizing that many County residents and taxpayers are concerned about capital project development costs and delays, the County should keep the public abreast of the extent of its efforts to ensure financial rigor in the management/delivery of capital projects."

The recommendation has been partially implemented under current quarterly budget reporting to the Board of Supervisors through the County Administrative Office. To enhance this recommendation, elements of a capital projects' change in scope, schedule or budget can be better highlighted in the quarterly reports. In addition, Public Works is currently upgrading its website which can include reporting on project scope, schedule or budget changes on the capital projects web page. The web page will be in place at the beginning of 2018.

Recommendation 2. “Rather than simply stating at the time of completion that a project came in “on time and within budget,” the County should provide more detailed information in a reader-friendly way, with a goal of diffusing the erroneous perception that project cost-overruns are being “slipped past the voters.”

The recommendation has not yet been implemented but would be incorporated into the aforementioned Public Works Capital Projects web page, as well as enhancing the reporting under the “Completed Projects” Appendix within the annual Five-Year Capital Improvement Plan submitted to the Board of Supervisors each February. Public Works, for over a decade, has stated Capital Projects Performance Measures in each fiscal year’s adopted budget for “percent project milestone delivered on time” and “percent projects delivered within budget” with an 85% and 90% annual goal, respectively. While the performance measure does not list all active projects, it can note which projects exceeded time or budget and convey those projects clearly to the public in the adopted budget. Enhanced reporting of capital project status on the upgraded web page, Five-Year Capital Improvement Plan report, and refined fiscal year adopted budget reporting should be implemented by March 2018.

Recommendation 3. “The County should give itself the option to use Design-Build for any project valued above one million dollars (as opposed to the current five million dollar threshold.)”

The recommendation will not be implemented at this time, as the County pursues its initial Design-Build process. Public Works recommended to the Board of Supervisors in April 2016 to use Design-Build on the Animal Shelter replacement and the new Co-Located Dispatch Center as “pilot” projects. Public Works is still in the early processing of Design-Build for those projects. In consultation with other counties, Public Works has received cautionary advice on Design-Build from their staffs. We would seek to attain experience through these two projects before requesting that the Board of Supervisors adopt a more formal long-term policy on the use of Design-Build. Furthermore, while we could see its application to the lower amount of one million dollars, as allowed by the Public Contract Code, we need to evaluate at what point it is both cost-effective and proper to use this method. By Fiscal Year 2019-20, staff should have sufficient experience to pursue other projects through Design-Build and potentially adopt policy or guidance through the Department of Central Services, for action by the Board of Supervisors, at a future update of the County’s Purchasing Policy.

II. Recommended Responses from the Board of Supervisors:

Finding 1. “The first public announcement of the cost and schedule of an approved project is an initial estimate, which is usually lower than the eventually approved budget for the project based on the building contract costs and similar factors.”

The Board adopts the response of the Department of Public Works.

Finding 3. “The reporting of final project completion sometimes includes statements that give rise to speculation that projects are not well managed.”

The Board of Supervisors partially disagrees with this finding. Statements such as constructed “on time and within budget” are relative to a specific construction contract value and time. Projects involving state agencies frequently involve further time and approvals beyond just the construction contract which could lead to unclear project completion.

Finding 5. “As the State authorizes it and as the County proposes to use it, the Design-Build project delivery method has generally proven in practice to expedite project completion and enable more cost-effective contracting with less financial and other risk to owner.”

The Board adopts the response of the Department of Public Works.

Finding 6. "While experts generally indicate that the Design Build method can be useful for all types and sizes of projects, under California law there is a limit: If County policy permits, the County may use Design-Build for any vertical project with a price tag that will exceed one million dollars."

The Board adopts the response of the Department of Public Works.

Recommendation 1. "Recognizing that many County residents and taxpayers are concerned about capital project development costs and delays, the County should keep the public abreast of the extent of its efforts to ensure financial rigor in the management/delivery of capital projects."

The Board adopts the response of the Department of Public Works.

Recommendation 2. "Rather than simply stating at the time of completion that a project came in "on time and within budget," the County should provide more detailed information in a reader-friendly way, with a goal of diffusing the erroneous perception that project cost-overruns are being "slipped past the voters."

The Board adopts the response of the Department of Public Works.

Recommendation 3. "The County should give itself the option to use Design-Build for any project valued above one million dollars (as opposed to the current five million dollar threshold.)"

The Board adopts the response of the Department of Public Works.

OTHER AGENCY INVOLVEMENT/IMPACT

The County Department of Public Works and Administrative Office drafted the recommended responses to the Grand Jury report, in consultation with County Counsel.

FINANCIAL CONSIDERATIONS

Costs for preparing this response are included in current department budgets.

RESULTS

This response will meet the legal requirements and time frames for responding to a Grand Jury report with findings and recommendations.

ATTACHMENTS

1. 2016-17 San Luis Obispo Grand Jury report "An Innovative Approach to Cost and Scheduling Challenges in County Capital Projects."