



# Memorandum

TO: HONORABLE MAYOR  
AND CITY COUNCIL

FROM: Katy Allen

SUBJECT: CAPITAL PROJECT  
CONTINGENCY POLICY

DATE: 11-13-02

Approved

Date

11.18.02

COUNCIL DISTRICT: Citywide

## RECOMMENDATION

Adoption of a resolution amending the capital project contract contingency policy in the Capital Improvement Program as follows:

The contingency amount that should be established at the time of the award of a construction contract should be one of the following:

1. Five percent of the total contract amount for street, sidewalk or park projects;
2. Ten percent of the total contract amount for utilities and building projects;
3. Fifteen percent of the total contact amount for building renovation projects; or
4. Such other amount as approved by the City Council for a particular project.

CEQA: Not a project

## BACKGROUND

The current policy for contract project contingencies states that “the amount set aside for contingencies shall correspond with industry standards and shall not exceed 5%, or a percentage of the total contract amount as otherwise determined by the City Council.” It is proposed that this policy be changed to better reflect the City’s objectives of cost effectiveness, expeditious project delivery and fiscal responsibility.

## ANALYSIS

A project contingency is established at the time of contract award in order to provide funding to resolve unforeseen issues and to provide efficient continuity of contract efforts. It is important that an appropriate contingency amount be set aside in order to provide for timely progression of contract activity. Underfunding the contingency can result in contract delays while overfunding the contingency unnecessarily ties up construction budgets.

Unforeseen needs vary greatly. Some examples of the type of unforeseen issues that have occurred during the construction of recent projects include the following:

- Soil conditions encountered in the field differed from those identified in design;
- Existing underground utilities were in a different location than shown on as-built plans;
- Traffic control plans needed to be adjusted to respond to changed conditions, and operational issues had greater impact than originally identified;
- Minor changes were requested by the owning department in order to improve maintainability or operational efficiency; and
- Sub-surface pavement conditions were worse than had previously been identified.

When these and other types of unforeseen issues arise, extra work is often necessary. Funding for this additional work comes from the project contingency. Timely approval of the additional work is necessary in order to maintain project delivery schedules and avoid the potential for delay and costs due to the delay. If additional budget appropriations were required in order to fund the additional work, there would in most cases be additional costs associated with the delay in requesting the appropriation. Therefore, it is prudent that the contingency amount that is set aside for projects be large enough to fund most unanticipated needs for projects. [When the contingency amount is not spent, which is often the case, any remaining contingency that is not used at the completion of the project is returned to fund balance and will be available to fund other needed projects.]

While each project is unique, the amounts that are needed for contingencies are often related to the type of construction that is being performed. A consortium of California cities recently conducted a study of construction projects, entitled California Multi-Agency CIP Benchmarking Study. The consortium included the cities of Los Angeles, San Diego, San José, San Francisco, Sacramento and Long Beach.

The study concluded that the contingency amounts used in street projects usually ranged from five to ten percent of the construction contract amount. Similarly, the study showed that the contingency amounts used in utility projects usually ranged from seven to twelve percent of the construction contract amount. Finally, for municipal buildings, project contingency use ranged from nine to twelve percent.

In three of the six cities, excluding San José, a ten percent contingency is set aside. In Los Angeles, twenty percent is set aside while in Long Beach, twenty five percent is established. Staff also contacted the Valley Transportation Authority and a number of cities in Santa Clara County. These agencies use a ten percent contingency as their standard.

Based on input from the Departments of Public Works, Environmental Services and Transportation, the San José Redevelopment Agency, the Valley Transportation Authority, and the Benchmarking Study cited above, staff recommends that projects that are mainly surface

work, including streets, sidewalks and parks should normally be awarded with a five percent contingency. Similarly, staff recommends that projects that are mainly underground work should normally be awarded with a ten percent contingency due to the greater uncertainty in doing work that requires excavation into areas where conditions are not readily apparent. For renovation projects, staff recommends that the Best Management Practice cited in the Benchmarking Study of a fifteen percent contingency be used, for the reasons that existing building conditions are often not readily apparent and that building renovation work and coordination is more complicated than utility and new building construction. Finally, staff will review each project and will make and support a recommendation to Council at the time of award of the contract if the contingency should be something other than these recommended amounts.

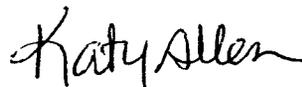
In order to properly manage the use of contingency funds, staff will monitor contingency use and will report back to City Council one year after adoption of this amended policy as part of the City's performance measures in the Operating Budget. ]

### **PUBLIC OUTREACH**

Not applicable.

### **COORDINATION**

This memorandum has been coordinated with the Departments of Environmental Services, General Services, Planning, Building and Code Enforcement and Transportation, the San José Redevelopment Agency, the City Attorney's Office and the City Manager's Budget Office.



**KATY ALLEN**

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