



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Katy Allen
William F. Sherry, A.A.E.

SUBJECT: SEE BELOW

DATE: 10-03-06

Approved

Date

10/3/06

COUNCIL DISTRICT: Citywide

**SUBJECT: NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
NORTH CONCOURSE GENERAL BUILDING (PACKAGE 4)**

REASON FOR SUPPLEMENTAL

To provide additional information and bid results.

RECOMMENDATION

Report on bids and award of contract for the Norman Y. Mineta San José International Airport North Concourse General Building (Package 4) to the low bidder, Clark Construction Group-California, LP, to include the base bid and Alternate Number 8, in the amount of \$144,082,025, and approval of a contingency in the amount of \$10,085,742.

CEQA: Resolution Nos. 67380 and 71451, PP 06-131

BACKGROUND

A memorandum dated August 30, 2006 was forwarded to City Council for the September 19, 2006 Council meeting. The purpose of this supplemental memorandum is to provide additional information and bid results.

ANALYSIS

Bids were opened on August 29, 2006 with the following results:

<u>Contractor</u>	<u>Base Bid</u>	<u>Alternate No.8</u>	<u>Total Bid</u>	<u>Variance Amount</u>	<u>Over/ (Under) Percent</u>
Hensel Phelps Construction Co. (San José)	\$157,258,495	\$1,900,000	\$159,158,495	\$34,723,647	28
Clark Construction Group-California, LP (Costa Mesa)	\$143,782,025	\$300,000	\$144,082,025	\$19,647,177	16
Engineer's Estimate	\$123,084,848	\$1,350,000	\$124,434,848	--	--

The low bidder was determined based on the lowest price, including alternates, in accordance with the provisions of the bid package. Staff recommends award of the Base Bid and Alternate Number 8, which is the additional cost to accelerate the project by 90 days from the Base Bid project completion time of 690 days to the accelerated completion time of 600 days. Savings in construction administration cost, estimated at \$1.8 million for 90 days, will offset the \$300,000 cost for Alternate Number 8, resulting in a net savings of approximately \$1.5 million.

The low base bid submitted by Clark Construction Group – California, LP, including Alternate Number 8 is 16 percent higher than the Engineer's Estimate. The variance between the low bid and the Engineer's Estimate can be attributed to a steady trend of increasing construction costs experienced over the last several years and volatile conditions that continue to influence the construction market, such as labor and material shortages.

In an effort to promote competitive bidding, five contractors were pre-qualified to bid on Package 4. Multiple bids generally lead to more competitive pricing. Industry bid climate adjustments, and unprecedented construction activity and the high demand for labor resources, driven by extensive building activity, primarily in Las Vegas and Southern California, resulted in only two of the pre-qualified contractors submitting bids for the project. Having minimal bids reduces competition and is a factor that contributed to the high cost.

Staff recognized and anticipated the possibility that uncertain market conditions could result in rising project costs by undertaking several rounds of value engineering scope reductions during the design process, and applied market adjustment factors in the project budgeting and cost estimating process. Any further value engineering will likely compromise key architectural elements including the building

In addition, staff addressed many bidder concerns proactively during the advertisement period. In order to keep bidder interest high the City modified key components of the warranty language, insurance provisions, and addressed constructability issues at the request of the bidders. A constant dialogue was maintained with the prospective bidders to answer questions and respond to requests for more information.

Upon development of the project budget, a program reserve was established and approved for use to address issues relating to changing scopes and/or the impacts that could result from uncertain market conditions. Program reserve funds are contained within the appropriated project funds. The project can be delivered within budget, utilizing the existing program reserve. Staff recommends moving forward with this award, rather than rebidding the project, for the following reasons:

- past experience demonstrates that the City would be unlikely to receive additional bids, particularly when construction activity forecasts do not indicate any substantial reduction in demand;
- current and projected escalation, when applied to the time period associated with rebidding, would likely negate any cost savings; and
- it is also possible that the bids would be higher than the current low bid, further eroding the work scope that could be accomplished with the project budget.

The engineer's estimate was validated in keeping with industry standards by both PB Aviation and Gilbane Building Company, who act as consultants to the Airport and Public Works on the Airport's capital development program. On a project of this magnitude, large variations from the estimate are not unprecedented due to project intangibles. Staff did apply multipliers for the Northern California construction market and for the limited number of bidders, to mitigate some of the bidding climate issues they anticipated. However, the actual impact of building growth in the private sector, especially in Southern California and Las Vegas, and the impact on our region, both in terms of labor availability and materials cost, which is also impacted by increasing worldwide demand, is volatile and difficult to predict.

Considering current market conditions, staff considers the low bid of \$144,082,025 submitted for this project to be competitive and reasonable for the work to be performed, and recommends award of the contract to Clark Construction.

Council Policy provides for a standard contingency of ten percent on public works projects involving the construction of a building. Because the excavation, foundations and steel have already been awarded, with the majority of the foundation constructed, contingency risk is reduced. Staff therefore recommends a seven percent contingency for this project.

COST SUMMARY/IMPLICATIONS

1. **COST OF PROJECT:**

Project Delivery*	\$ 52,427,830
Construction** (See Cost Breakdown Below)	152,808,447
Contingency	10,085,742
TOTAL PROJECT COSTS	\$215,322,019
Prior Year Expenditures	43,361,266
REMAINING PROJECT COSTS	\$171,960,753

2. **COST ELEMENTS OF CONSTRUCTION CONTRACT**

General Building	\$143,782,025
Alternate No. 8	300,000
TOTAL CONSTRUCTION CONTRACT	\$144,082,025

3. **SOURCE OF FUNDING:** 520 - Airport Capital Improvement Fund
526 - Airport Revenue Bond Improvement Fund
527 - Airport Renewal and Replacement Fund

4. **FISCAL IMPACT:** The project has been reviewed and it was determined to have no impact on the General Fund operating budget.

*A total of \$43,361,266 was expended/encumbered through FY2005-2006 for Project Delivery Costs.

**Includes the following costs: Owner Controlled Insurance Program (OCIP) - \$8,616,422, construction utilities not part of base bid - \$110,000, and construction award - \$144,082,025

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. For Contract	2006-07 Adopted Budget Page	Last Budget Action (Date, Ord. No.)
Remaining Project Costs			\$171,960,753			
526 (548)	4643	Central Plant Expansion	\$5,333,000	\$3,224,511	V-975	6/27/06, Ord. No. 27801
520	4657	North Concourse Building	\$14,822,000	\$11,424,268	V-980	6/27/06, Ord. No. 27801
526 (548)	4657	North Concourse Building	\$178,188,000	\$125,886,648	V-980	6/27/06, Ord. No. 27801
527	4712	Utility Infrastructure	\$901,000	\$160,833	V-991	6/27/06, Ord. No. 27801
526 (522)	4712	Utility Infrastructure	\$3,388,000	\$1,772,260	V-991	6/27/06, Ord. No. 27801
527	4717	Electrical Distribution System	\$113,000	\$94,724	V-976	6/27/06, Ord. No. 27801
526 (522)	4717	Electrical Distribution System	\$1,250,000	\$1,043,781	V-976	6/27/06, Ord. No. 27801
527	5927	Public Art	\$1,298,000	\$475,000	V-957	6/27/06, Ord. No. 27801
Total			\$ 205,293,000	\$144,082,025		

CEQA

CEQA: Resolution Nos. 67380 and 71451, PP 06-131



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