



# COUNTY OF SANTA BARBARA NORTHERN BRANCH JAIL PROJECT REPORT ON CONSTRUCTION BIDS/OPTIONS

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MAY 23, 2016

# Staff Recommendations

- a) Receive an update from staff on the construction bids received in April 2016 on the Northern Branch Jail (NBJ) AB900 Phase II Project
- b) In anticipation of final decisions on the bids on July 12, 2016, consider project options to address the higher than estimated costs
- c) Consider funding options to address the additional funding need for the project, and direct the CEO to prepare actions through which the Board, within the June 2016 Budget Adoption Hearings, can consider a comprehensive budget proposal of the selected funding method
- d) Direct staff to research other potential alternatives to the project and return on July 12, 2016
- e) Provide other direction, as appropriate
- f) CEQA

# Bid Status

- Bids opened on April 7, 2016, projected total shortfall of \$14.75 million
- Three bids for bid package 1 (BP-1), encompassing construction of the Northern Branch Jail complex and site improvements, were received with base bids ranging from \$77.72 million to \$79.28 million (compared to the engineer's estimate of \$66.7 million)
- For bid package 2 (BP-2) encompassing construction of the offsite utilities serving the jail, three bids were received ranging from \$2.912 million to \$3.187 million (compared to the engineer's estimate of \$2.394 million)
- Additional, related items, such as a required higher contingency, have also contributed to the additional project costs.

# Bid Analysis

- Factors Contributing to Higher Than Expected Bids
  - State approval process
    - State impacted by other AB900 projects in the queue
    - 8.5 month delays in securing California State Fire Marshal approval
  - Escalation impacts of the above at a rate of .42% per month and forecasted to increase
  - Factors indicate a robust construction market

# Bid Analysis

- Limited bidder response at bid time
  - BP-1
    - 25 prequalification packets distributed
    - 9 General Contractors prequalified
    - 6 attended the mandatory pre-bid conference on February 11, 2016
    - Ultimately, only 3 submitted bids on April 7, 2016
  - BP-2
    - No prequalification required
    - 13 General Contractors attended the mandatory pre-bid conference on March 10, 2016
    - Ultimately, only 3 submitted bids on April 7, 2016

# Staff Actions

- Worked with the project team and consultants to analyze the bids and review value engineering project options
- Discussed the situation and explored options with the Board of State Community Corrections (BSCC) staff
- Worked with the County Executive Office on possible methods to fund the overage
- Began exploring possible alternatives to the project, should funding and project options appear infeasible.

# BSCC Preliminary Discussion

- No additional funding available
- Agreements and other grant conditions specifically outlined that project overages are the responsibility of the Counties, and not the State
- Cautioned that significant changes to the project would be prohibited as would significant deviations from the project as originally proposed and awarded

# Value Engineering Challenges

- Conducted multi-disciplinary workshop on April 21, 2016
- Analyzed immediate potential savings in eliminating or downgrading project elements
- Analyzed long term impacts of those reductions with regards to;
  - programmatic and operational implications
  - increased maintenance costs
  - higher life cycle costs



# Value Engineering Challenges

- Reductions ranged from minor specification changes to elimination of major elements such as eliminating a housing unit
- Cost escalation counteracts the benefits of redesign and rebid options due to lengthy State re-approval processes.
- Escalation costs also impact rebidding for the potential of a larger pool of qualified contractors

# Project Options - Summary

Option Description	Approximate Implementation Time (months)	Approximate Added Cost (\$M) Costs – Savings = Total			Feasibility
		Costs	Savings	Total	
Option 1 – Cancel the Project	0 mo.	(\$0M)	(\$0M)	(\$0M)	Yes
Option 2 – Award the Project and Proceed as Designed	2-3 mo.	\$14.8M	(\$0M)	\$14.8M	Yes
Option 3 – Redesign and Rebid using Design-Bid-Build	14-16 mo.	\$19M	(\$6.3M)	\$12.7M	No
Option 4 – Rebid same Project specifications	4 mo.	\$16.3M	(\$0M)	\$16.3M	Yes

# Project Options

- Option 1, Cancel the project
  - Pros-
    - AB900 Conditional Award allows counties the option of cancelling the project prior to award of the construction contract
    - Bid documents and Public Contract Code also allow the Board to reject all bids.
  - Cons-
    - County will not have an opportunity to realize State reimbursement of any of the project expenses to date, and would lose the \$80M AB900 conditional award.
    - Overcrowding in the Main Jail and need for rehabilitation

# Project Options

- Option 2, Award the project and proceed
  - Pros-
    - The project as designed fulfills all of the conditional award criteria, as well as the County's project criteria as scoped.
    - The low bid is potentially the best value in the current market, with more escalation probable according to forecasts.
  - Cons-
    - The deficit of 14.7M to the approved project budget was not contemplated
    - Given the demand for General Fund dollars to fund other County needs and priorities, and the large commitment of General Fund to fund the operations of the NBJ, greater General Fund appropriation is challenging. However, financing the project is feasible (See Funding Options).

# Project Options

- Option 3, Redesign the project to value engineer scope, and rebid
  - Pros-
    - Rebidding may increase the pool of bidders
    - Redesign, if possible, may be the most effective means to achieve more favorable bid results, and could be achieved at a low expense to the County (staff soft costs only) for the consultant services necessary to perform the work.
  - Cons-
    - The value engineering studies did not result in any options which would achieve savings commensurate with the project deficit.
    - The State is not amenable to modification of the project as defined by the grant submission and subsequent conditional award.
    - Changes could jeopardize the \$80M conditional award.

# Project Options

- Option 4, Rebid same Project specifications
  - Pros-
    - Potential additional Bidders resulting in favorable bid results
    - This option would likely be allowable by the State.
  - Cons-
    - There is no guarantee that more Bidders would bid.
    - Project escalation would likely occur and potentially negate any of the savings.

# Funding Options – Need \$14.7M

- Under all options, it is recommended that funds be transferred to the AB 900 Construction Fund:
  - Approximately \$2.0 million remaining/unspent funds from the STAR, SB-1022 fund balance
  - \$500 thousand from the NBJ Contingency Fund (non-construction contingencies)
- \$12.2 million remains to be funded (\$14.7M – \$2.5M above = \$12.2M)

# Funding Options – Summary

Options	Pro	Con
<b>Option 1 - Reduce Strategic Reserve</b>	Funding available; Could be achieved through Budget Adoption process	Would reduce Strategic Reserve to 60% of target level; not the intended purpose of the Strategic Reserve per the Board' policy.
<b>Option 2 – Utilize Debt Financing</b>	Avoids using the Strategic Reserve	Would preclude GF debt for other County CIPs in next year's budget; financing/interest costs
<b>Option 3 – Transfer Funds from the NBJ Operations Fund</b>	Sufficient funding exists, given delays already experienced; would not require more GF beyond the Operation Funding Plan's current levels	Removes a cushion in the Operations Fund balance should any unanticipated costs arise
<b>Options 4 – Hybrid Approach</b>	A hybrid approach of two or all three of the options above could spread the risk of any one option	If reducing the Strategic Reserve by any amount, the target level still would not be met; if using a portion of debt proceeds, it would prohibit use of these funds for other County projects.



# Funding Options

- **Option 1, Reduce Strategic Reserve**

- Pros: These funds could be transferred to the project during the budget process by a 3/5 vote. It would avoid costs of debt financing the shortfall.
- Cons: The Strategic Reserve's purpose is for reserving funds for:
  - economic downturns,
  - to mitigate state and federal budget actions,
  - to maintain core services,
  - disaster and liability costs;

The SR is not intended to fund capital project shortfalls. The County has recently achieved full funding as it has emerged from the Great Recession; further economic downturns are likely and this fund will be needed to offset reductions. Such action could adversely impact County's short and long term credit rating.

# Funding Options

- **Option 2, Debt Financing & Forgo Other Capital Projects**
  - Pros: This funding would avoid significantly affecting the Strategic Reserve. The CEO's Recommended Budget includes \$1.4 million of ongoing General Fund for an estimated \$20 million in capital projects and this could be used for the shortfall.
  - Cons: There is significant countywide need for capital improvements, using up debt capacity for the NBJ would preclude other needed projects, such as:
    - Security upgrades in County buildings,
    - Calle Real sewer lines, and
    - Necessary capital replacement items at the existing Main Jail

# Funding Options

- Option 3, Transfer Funds from NBJ Operations Fund
  - Pros: **This option is recommended** because:
    - Sufficient funds projected to address construction overage and the operational needs,
    - No additional General Funds required beyond existing plan,
    - No interest or issuance costs from debt,
    - Strategic Reserve remains intact at the targeted level,
    - In essence, delays in opening the jail result in more accumulated savings as operating expenses are delayed.
  - Cons: The risk with this option is that if NBJ operating costs increase beyond current assumptions, and the \$12.2 million is allocated from the Operations Fund, there would be less of a cushion to absorb cost increases.

# Funding Options: Illustration of Option 3

*If Jail Opens Fully Staffed March 1, 2019*

Fiscal Year	GFC Base	GFC Increase	Total GFC	County Match Construction	Operating Costs	End of Year Balance
2011-12	\$ -	\$ 1.0	\$ 1.0	\$ -	\$ -	\$ 1.0
2012-13	1.0	1.0	\$ 2.0	(3.0)	-	-
2013-14	2.0	1.3	\$ 3.3	-	-	3.3
2014-15	3.3	1.3	\$ 4.6	-	-	7.9
2015-16	4.6	1.5	\$ 6.1		(0.2)	13.8
2016-17	6.1	1.5	\$ 7.6	(12.2)	(2.0)	7.2
2017-18	7.6	1.5	\$ 9.1	-	(3.8)	12.5
2018-19	9.1	1.8	\$ 10.9	-	(11.1)	12.3
2019-20	10.9	1.8	\$ 12.7	-	(17.9)	7.2
2020-21	12.7	2.2	\$ 14.9	-	(18.4)	3.7
2021-22	14.9	2.2	\$ 17.1	-	(19.0)	1.8
2022-23	\$ 17.1	\$ 2.2	\$ 19.3	\$ -	(19.5)	1.6

# Funding Options

- Option 4, Hybrid Approach of the Three Above
  - Pro: This would spread the risk of each approach.
  - Con: This option is not recommended because it would still be contrary to the Strategic Reserve policy and reduce the reserve below the target level. Using some portion of debt proceeds would still prohibit use of those funds for other county capital improvement project needs in FY 2016-17.

# Other Financial Considerations and Alternatives

- Operational Costs
- Rehabilitation Study of the Main Jail
  - Not fully evaluated
  - 6 months for a full study
- Other Alternatives, New Opportunities:
  - Swing space
  - Cost/feasibility to be evaluated
- Confirmation of All Project Costs

# Timeline and Next Steps

- Budget Hearings
  - June 13<sup>th</sup> and 15<sup>th</sup>
- Decision on Bids
  - July 12th Board meeting
  - Bids expire August 5th, 2016
  - Final State coordination following Board direction
  - Possible need for bid extension/ key contract risks
- Other Alternatives

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