CITY OF COSTA MESA

Department of Public Services / Administration

INTER OFFICE MEMORANDUM

To: Honorable City Council

From: Ernesto Munoz, Interim Director, Public Services Department

Date: January 6, 2012

Subject: **PREVAILING WAGE VS. NON-PREVAILING WAGE FOR CAPITAL IMPROVEMENT PROJECTS**

At the December 6, 2011 meeting, the City Council requested staff to provide an analysis of potential cost savings the City may realize if it was not required to meet prevailing wage rate requirements on the labor costs associated with its capital improvement projects.

Staff examined the past two years' project records and analyzed the cost for five non-Federally funded projects, since projects with a Federally-funded match must pay prevailing wage rates.

The following five projects were funded with local revenues and, therefore, were not subject to Federal wage rate requirements. However, prevailing wages were paid pursuant to State labor code requirements. The weighted average cost savings of a non-prevailing wage contract for these projects is approximately $232,752 or 6.7% over total project costs.

PROJECT	TOTAL COST	PREVAILING WAGE LABOR COST	NON-PREVAILING WAGE LABOR COST	TOTAL LABOR COST SAVINGS	% SAVINGS ON LABOR COST	% SAVINGS ON TOTAL CONTRACT COST
WALNUT DRAINAGE IMPROVEMENTS	$377,589	$69,831	$20,725	$49,106	70.32%	13.00%
FARM SPORTS COMPLEX LIGHTING	$42,940	$7,538	$6,505	$1,033	13.70%	2.40%
BRENTWOOD PARK LANDSCAPING	$80,803	$42,858	$30,402	$12,456	29.06%	15.40%
PARKING LOT NO. 1 REHABILITATION	$292,744	$61,646	$26,172	$35,474	57.54%	12.10%
CITYWIDE STREET MAINT. 2010/2011	$2,678,033	$928,847	$794,164	$134,683	14.50%	5.03%
TOTAL	$3,472,109	$1,110,720	$877,968	$232,752		

Based on the listed projects, the potential savings over the total project costs could have ranged between 2.4% and 15.4% if non-prevailing wage rates would have been paid by the City.

It would be reasonable to assume (without further project-specific detailed analysis) that comparable theoretical savings may have been realized on a project such as the Police Department Expansion and Renovation in the range of $500,000 to $3 million. Staff feels that savings for the Police Department Expansion and Renovation Project, with a total construction contract cost of $19,964,780, could have been in the middle of this range given the high labor component of this contract or approximately $1.8 million.

The **potential savings** to the City increase relative to the project size and the size of the project labor component. For further illustration, on a larger facility-type project, such as the construction of a new public library facility (assuming a hypothetical $30 million budget), the potential savings could be as much as $2.7 million.

Attached also find other information you may find useful relative to the prevailing wage issue and its impact on public works contract costs.

Please feel free to contact me should you have any questions regarding the above information.

Attachments

c: Thomas R. Hatch, Chief Executive Officer
Peter Naghavi, Economic Development Director/Deputy CEO

MEMORANDUM

Development Services Department

To: Honorable Mayor and City Councilmembers

Through: Peter Weiss, City Manager

By: Gary Kellison, Senior Civil Engineer
Greg Blakely, Water Utilities Division Manager

Date: April 1, 2010

Subject: **Relative Portion of Local versus Federally Funded Capital Projects**

Councilmember Kern requested a breakdown of the relative portion of current capital projects funded with local or regional funds versus those with State or Federal funds. Currently, Oceanside pays prevailing wages on both kinds of projects.

Fund	Description	Local	Federal
751	Harbor – Lot 11 Restroom	$250,000	
591	Redevelop. – Drainage Improvements; Tyson parking lot	$2,800,000	
520	Drainage fee, TransNet – Loma Alta Crk detention basins	$4,490,000	
216	State Prop 42 – Sidewalk repairs; storm drains	$290,000	
212	TransNet – Street maintenance and new construction	$10,840,000	
212	TransNet – Federal match for Pacific Street bridge		$770,000
561	Thoroughfare fee – College Blvd median storm drain	$100,000	
508	Traffic Signal fee – various traffic signals	$1,670,000	
501	Misc Capital Projects – 1617 Mission Ave bldg remodel	$310,000	
501	Misc Capital Projects – Pacific Street bridge		$450,000
237	Housing (HUD)– CBDG and ARRA (housing grants)		$500,000
272	Public Works – State Prop 50 grant (arundo removal)		$80,000
	Public Works – DOE ARRA (energy efficiency grants)		$1,500,000
	Water Utilities – water and sewer projects	$8,560,000	$490,000
	Total	$29,310,000	$3,790,000

The table above lists the current-year budget for various types of projects split between local and Federal fund sources. TransNet and some State programs, such gas tax, are categorized as "local" because they defer to local rules. Local funds that are budgeted on Federal projects are counted as "Federal" because those funds become subject to Federal rules when spent on Federal projects.

In the previous two years, Oceanside received Federal reimbursements of approximately $18 million for the Pacific Street Bridge. The next largest project over the same period was El Corazon Senior Center, which was built with $10 million in local funds.

cc: George Buell, Development Services Department Director
Loren Wasserman, Interim Water Utilities Director

From: Peter Weiss
Sent: Monday, April 05, 2010 7:41 AM
To: City Council

Cc: Gary Kellison; Scott Smith
Subject: FW: Questions regarding Mance Buchanon Park

Mayor and Council:

Council Member Kern requested information regarding the costs for Mance Buchanon Park and an estimate of savings if prevailing wages would not have been required. The following is staff's response.

From: Gary Kellison
Sent: Friday, April 02, 2010 1:14 PM
To: Peter Weiss; Scott Smith
Cc: David Toschak
Subject: RE: Questions regarding Mance Buchanon Park

Peter and Scott,

The construction of Mance Buchanon Park cost $11,753,000 and its design cost $775,000 for a total of $12,528,000.

Prevailing wage savings are difficult to estimate. At the high end, the cost of a consultant providing construction staking or field testing would be 30% without prevailing wages. For a large general contractor, the savings would be smaller because of his fixed material costs and an inability to fully reduce salaries of skilled employees. I think an reasonable savings rate would be 10% at the low end and 20% at the high end. For Mance Buchanon Park, that translates to a savings of $1,175,000 to $2,350,000.

Gary Kellison

Council Member Kern would like to know how much money was spent to build Mance Buchanon Park?

Can you estimate what the savings would be to the taxpayers if the City of Oceanside did not have to pay prevailing wages on this project?

Ben Sullivan

Memorandum
DEVELOPMENT SERVICES DEPARTMENT
Engineering Division

TO: Honorable Mayor and City Councilmembers

THROUGH: Peter Weiss, City Manager

FROM: Gary Kellison, Senior Civil Engineer

DATE: September 15, 2010

SUBJECT: **Harbor Aquatics Center Project Bid Results and Cost Comparison**

This memo provides information similar to the memo dated September 7, 2010, on the Library Renovation bid results.

The City first bid the Harbor Aquatics Center in May 2008. Then, the low bid was $4,353,000, but was not awarded because it exceeded the City's budget at that time.

The Aquatics Center was rebid last month with a low bid of $3,530,249. It is on the September 22, 2010, City Council agenda with a staff recommendation to award.

The $822,751 (19% difference) price difference between the 2008 and 2010 bid prices is due to a combination of:

- Depressed conditions in the current construction market
- No prevailing wages on the current bid

The Harbor Aquatic Center bid is a "lump sum" price without a breakdown between labor and material, or the individual trades. In response to the City's inquiry about the impact of no prevailing wages on the bid results, the contractor replied with the attached e-mail indicating a savings of 12 to 18% for omitting prevailing wages.

If additional information is needed, please contact Gary Kellison.

c: Don Hadley
George Buell
Scott Smith
Frank Quan
Nathan Mertz

Don Hadley

From: Ben Menasherov [BMenasherov@SMCCON.com]
Sent: Wednesday, September 08, 2010 11:00 AM
To: Nathan Mertz
Cc: Gary Kellison; Scott Smith; Don Hadley; Frank Quan; Al Chegini
Subject: RE: Harbor Aquatics Center Prevailing Wage vs Non-Prevailing Wage Projects

Nathan,

I just checked with my estimating department and please keep in mind that each subcontractor and contractor's wages are different regarding non prevailing rates. We have seen that there is a cost savings of anywhere from 12 to 18% versus prevailing wage work.

In addition the material and equipment costs have also dropped significantly in the past couple of years.

In summary projects in Southern California are coming in approximately 20 to 30% less than they were two years ago.

Hope this helps,

Take care,

Ben Menasherov
General Manager
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-----Original Message-----
From: Nathan Mertz [mailto:NMertz@ci.oceanside.ca.us]
Sent: Wednesday, September 08, 2010 10:34 AM
To: Ben Menasherov
Cc: Gary Kellison; Scott Smith; Don Hadley; Frank Quan
Subject: Harbor Aquatics Center Prevailing Wage vs Non-Prevailing Wage Projects

Hi Ben

As discussed will you please send information in regards to any opinions on cost savings for non-prevailing wage vs. prevailing wage projects.
General percentages or specific percentages to our project will work -- thanks!

Nathan Mertz

OCEANSIDE CITY COUNCIL MEMBER JERRY KERN

NEWS RELEASE

Contact: Ben Sullivan
Aide to Council Member Jerry Kern
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Oceanside, CA 92054
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bsullivan@ci.oceanside.ca.us
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For Release September 16, 2010
NOTE:
5 PAGES WITH ATTACHMENTS

COST SAVINGS NEAR $1 MILLION ON PUBLIC WORKS PROJECTS WITH ADOPTION OF THE CITY CHARTER

OCEANSIDE CITY STAFF ANNOUNCED THAT COST SAVINGS RELATED TO PROVISIONS WITHIN THE RECENTLY ADOPTED OCEANSIDE CITY CHARTER HAS SAVED A TOTAL OF $970,355 ON TWO CITY PROJECTS.

ACCORDING TO STAFF THE CITY REALIZED $147,604 IN SAVINGS FOR THE LIBRARY RENOVATION PROJECT DUE PRIMARILY TO SAVINGS IN LABOR COSTS.

COUNCIL MEMBER JERRY KERN SAID, "THESE SAVINGS PROVED HELPFUL IN SEEING THE OCEANSIDE CIVIC CENTER LIBRARY RENOVATIONS PROJECT BECOME A REALITY.

ADDITIONAL GOOD NEWS BY CITY STAFF ANNOUNCED SAVINGS OF $822,751 ON THE HARBOR AQUATICS CENTER, WHICH TURNED OUT TO BE A 19 PERCENT REDUCTION OVER AN EARLIER BID WHEN PREVAILING WAGES WERE REQUIRED WHEN OCEANSIDE WAS A "GENERAL LAW" CITY.

"THE CITIZENS OF OCEANSIDE SHOULD FEEL REALLY GOOD ABOUT SAVING NEARLY $1 MILLION ON THE FIRST TWO PROJECTS SINCE THE RECENTLY ADOPTED CITY CHARTER WAS ENACTED,"KERN SAID.

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"WITH THE ON-GOING BENEFITS OF LOWER LABOR RELATED COSTS ON APPROXIMATELY $30 MILLION A YEAR IN DAY-TO DAY PUBLIC WORKS PROJECTS, THE TAXPAYERS OF OCEANSIDE SHOULD REALIZE ANNUAL SAVINGS IN THE AMOUNT OF $3 -6 MILLION PER YEAR," KERN SAID.

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Memorandum
DEVELOPMENT SERVICES DEPARTMENT
Engineering Division

TO: Honorable Mayor and City Councilmembers

THROUGH: Peter Weiss, City Manager

FROM: Nathan Mertz, Parks Development Manager

DATE: September 7, 2010

SUBJECT: **Civic Center Library Renovation Project Cost Savings**

At the request of Councilmember Lowery, the following information regarding cost savings for the Library Renovation Project is being provided.

As part of the library project re-bid process, a reduced base bid schedule with the inclusion of additive and deductive alternates was prepared. At the time of the project re-bid process the CA State Prevailing Wage provisions were deleted.

I have provided a simple spread sheet from both of the base bids received (see attached). For further description of the individual bid items please refer to the attached bid schedule for the project. The base bids were used in determining the low bidder at the time of the bid opening. I have outlined the "re-bid" base bid items in comparison to the respective "original" base bid items (deductive and additive alternates for the project are not included within the spreadsheet). There is $147,604 in savings which is primarily based on labor.

The project bid items (line items) are inclusive of equipment, materials and labor. Bids received by the City from a general contractor do not include the breakdown of equipment, materials and labor. In addition, most of the bid items for this project are performed by sub-contractors. Proposals provided by sub-contractors to the general contractor do not include a breakdown of equipment, material and labor either.

Please feel free to contact me with any other questions.

Cc: George Buell
Deborah Pollch