

CITY COUNCIL REPORT
PUBLIC

DATE: April 7, 2017

TO: Mayor and Councilmembers

FROM: Mark Landsiedel, Community Development Director
Rick Barrett, City Engineer

CC: Josh Copley, Barbara Goodrich, Shane Dille, Meg Roederer,
Leadership Team

SUBJECT: Contract Allowance/Change Order Authority

This report provides a copy of City Employee Directive No. 2-021 regarding the Change Order Committee. This Directive, issued by City Manager, has an effective date of July 1980 with revisions in December 2003 & September 2008. The Change Order Committee was established in 1980 and the Directive further defines the purpose, process and membership of the Committee as well as process, exceptions and definitions for change orders, task orders, field orders and purchase orders.

Change orders are an inevitable part of the engineering design and construction process for the delivery of public works projects. The existing City of Flagstaff policies and contract administration procedures have been working extremely well in balancing cost, time, litigation exposure and public expectation. Our total project costs, including change orders, are historically well within the estimated projects costs as adopted in our 5-year Capital Improvements Program. While we could take additional measures (such as extensive subsurface exploration) during the design of projects to limit change orders, these measures certainly have a cost and time associated with them. Again, we currently have a very good balance in creating cost-effective, detailed engineering documents that keep construction change order costs to a level that is within established total project budgets.

Discussion:

The administrative process established by the Change Order Committee Directive has been invaluable for successful delivery of capital projects as follows:

- ❖ Provides a nimble way to administratively manage inevitable differing field conditions including but not limited to soil conditions and utilities

- ❖ Avoids the need for premium design services (extensive subsurface investigations)
 - Extensive investigations are reserved for critical projects
 - Still may not eliminate the risk of encountering differing field conditions
- ❖ Minimizes impacts to businesses and residents when differing field conditions are encountered
- ❖ Ensures prompt payment to contractors
- ❖ Eliminates change orders that are brought to Council that must be approved ["confirming"]
 - Staff sometimes orders work, in the best interest of the City, be performed by the contractor in order to minimize;
 - risk of claim
 - risk of standby charges associated with work stoppage
 - impacts to roadways & water/sewer service
 - Contract must be paid for work they were ordered to perform
- ❖ Streamlines the process
 - Reduces frequency of Change Order Committee meetings
 - Eliminates preparation of a Staff Summary Report for Change Order consideration
 - Reduces items from Council Agendas
 - Provides a means to manage project changes during Council's summer break – during height of construction season
 - Provides a process for fair & equitable management of unforeseen contract modifications
 - Improves Contractor/staff working relationship
 - not contentious/litigious
 - Creates positive working environment
 - contractors want to work for the City
 - Better able to deliver more projects with limited staffing
 - staff is more productive/efficient
 - Better able to meet established performance measures
 - promises kept in terms of budget/schedule

Contract Allowance (CA) [See Article 3 of the Directive]

- On average, 80-90% of the project CA is expended
- Built into the contract and budgeted for unforeseen items of work where details cannot be determined at the time of contracting
- There is no guarantee of its expenditure in whole or in part
- Any unused project funds are returned to the Program Fund
- Typically \$5K - \$10K for each changed condition item
- Avoids bundled change orders that include multiple items

City Manager's Change Order Authority (COA)

- Key to effectively managing occasional, time-sensitive major construction issues
 - lengthy lead time required (4-6 weeks) to have Council act on an agenda item
 - “confirming” change orders ordered by Staff due to the urgent nature of changed field condition are eliminated
- Not built into the contract
- Utilized only if CA is or would become exhausted
- If utilized, a funding source must be identified
 - Administratively - if within adopted Budget
 - Council Approval - if additional Budget is required
- Time only (in excess of 120 days) changes are the most common
- Staff is not aware of a time both CA and COA were exhausted and a Change Order was then brought to Council for consideration
- COA is a critical part of the Change Order Committee Directive process whereby
 - Provides a level of project review above the project delivery team – City Manager
 - Provides a time-proven, dependable system

This City Council Report is for information only.

Attached: Change Order Committee Policy

CITY OF FLAGSTAFF

City Employee Directives

No. 2-021

Title: CHANGE ORDER COMMITTEE

Effective: 07/15/1980 **Revision:** 12/20/2003; 09/22/08

Contact: Office of the City Manager (779-7604 or Ext. 7604)

1. PURPOSE

The City of Flagstaff recognizes the need for city staff to review and approve change orders, task orders that exceed the City Council approved contract amounts, field orders that exceed the authorized limits, and purchase orders that exceed the established limit in the City Code. Pursuant to Article III, Section 3 (g) of the City Charter and Council authority of July 15, 1980, the Change Order Committee was established. This directive further defines the purpose, process and membership of the committee.

The purpose of the Change Order Committee shall be to:

1. Review and recommend to City Council approvals, modifications, or disapprovals of design and construction change orders exceeding the time and/or dollar contractual amounts approved by the City Council;
2. Review and approve individual task orders for on-call consultant services that exceed \$100,000 or 120 calendar days;
3. Review and approve field orders that exceed \$100,000 or 60 calendar days
4. Review and recommend to City Council approval of dollar and time amounts for engineering studies, feasibility studies, reports, contracts, and purchase orders for capital projects that exceed the amount approved by the City Council or that exceed the purchasing limits of the City of Flagstaff City Code;

2. PROCESS

A change order shall be written for any and all changes in the contract's time, conditions or compensation. This written change shall be submitted to the change order committee.

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Exception #1 – A Field Order, which is a written and limited change order that is issued under the Contract Allowance provision, does not require change order committee action.

Staff shall have the following field order authorities:

Project Manager \$10,000 and 10 calendar days.
Section Head \$25,000 and 30 calendar days.
Division Head Full contract allowance amount and 60 calendar days.

Field Orders that exceed \$100,000 or 60 calendar days require the Change Order Committee to approve the field order. The Change order committee can approve extensions with a “no time limit” cap, if it is a no cost change.

Exception #2 – A Task Order, which is a written and limited order for a scope of work and is issued under the “On-Call” Consultant Contract, does not require change order committee action.

Staff shall have the following Task order authorities:

Project Manager \$10,000 and 10 calendar days.
Section head \$25,000 and 60 calendar days.
Division head \$100,000 and 120 calendar days.

Task Orders that exceed \$100,000 or 120 calendar days require the Change Order Committee to approve the task order. The Change order committee can approve extensions with a “no time limit” cap, if it is a no cost change.

3. DEFINITIONS

Contract Allowance - Contract allowances of 5%, 7.5% or 10% may be added to all design and construction contracts. The allowance is based on the engineer’s estimate and will be included in design contracts for recommendation of award by City Council. The allowance will also be included in the bid for construction contracts for recommendation of award by City Council.

Contract amount*

over \$1,000,000 in value
from \$999,999.99 to \$250,000
from \$249,999.99 or lower

Contract Allowance

allowance of 5%;
allowance of 7.5%
allowance of 10%.

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Administrative Change Orders - A ten-percent (10%) Administrative (City Manager) Change Order (ACO) amount may be included in all design and construction contracts to be considered by the City Council. The ACO amount is 10% of the total contract less the Contract Allowance amount. The ACO shall not exceed \$500,000.

Administrative Authorization Examples

<u>Contract Amount</u>	<u>Allowance</u>	<u>Administrative CO.</u>	<u>Total</u>	<u>Total Percentage</u>
\$12,000,000	\$600,000	\$500,000	\$1,100,000	9.2%
5,000,000	250,000	500,000	750,000	15.0%
1,000,000	50,000	100,000	150,000	15.0%
500,000	37,500	50,000	87,500	17.5%
100,000	10,000	10,000	20,000	20.0%

Task order – These are authorized scopes of engineering/design work issued to consultants who have approved on-call contracts with the City.

4. MEMBERSHIP

The Change Order Committee Members will consist of the following:

1. Public Works Director or designee
2. Utilities Director or designee
3. City Attorney or designee
4. City Engineer or designee
5. City Purchasing Director or designee

The City Manager shall designate a Chair who shall preside over all the meetings, establish agendas, and distribute meeting minutes. A Co-Chair will be appointed by the Chair to act in the Chair's stead in the event of the Chair's absence.

The Change Order Committee meets once a week as necessary at a day, time and location determined by the committee.


An electronic copy of all change orders must be submitted to the Committee Chairperson by noon on Monday to be scheduled for the following Thursday's meeting.

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Three original change orders, signed by the project manager and Department Head shall be given to necessary Change Order Committee members for signature and then the project manager will obtain all necessary signatures including the contractor or consultant. Purchasing will obtain the City Manager's signature, if necessary, and distribute copies to the project manager and contractor or consultant.

By 
Kevin Burke, City Manager

Dated: 9/22/08