



AGENDA MEMORANDUM

Action Item for the City Council Meeting of April 1, 2025

DATE: April 1, 2025

TO: Peter Zanoni, City Manager

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FY 2022 Operational Budget Adjustment **Engineering Services Department**

CAPTION:

Ordinance approving the addition of twenty (20) full-time positions and equipment to the Engineering Services Department budget; amending the FY 2025 Operating Budget as required for the last five months of the year with funding coming from the FY 2025 Capital Improvement Budgets as required. The FY 2025 impact is \$2,492,000 including vehicle purchases with an FY 2026 recurring amount of \$2,084,000.

SUMMARY:

This Ordinance increases the Engineering Services funded positions from 103 to 123. This increase is needed to respond to the demands of the near-term CIP that have increased from \$703 million in FY24 to \$1 billion in FY25. Subsequent to CIP adoption, all four propositions of the \$175 million Bond 2024 program were approved by the voters.

BACKGROUND AND FINDINGS:

Engineering Services is an internal services department that is tasked with cost-effectively managing the execution of the City's capital construction project portfolio. The numbers of projects and scale of the projects managed have grown dramatically in recent years. Department workloads have increased proportionally. Staffing levels have not kept pace with the increased demands.

During the August 29, 2024 City Council workshop on the CIP it was mentioned that upon passage of the FY2025 CIP and approval of the Bond 2024 referendum, Engineering Services would be requesting a mid-year budget adjustment. Both of the CIP and Bond referendum passed resulting

in increased tasking for Engineering Services. Additional staffing is being requested to keep pace with growing work demands. The FY 2025 impact is \$2,492,000 (including vehicle purchases) with an FY2026 recurring amount of \$2,084,000.

The City awarded \$524M in new CIP AE and construction contracts in FY24. The performance expectation is to exceed that amount in FY25. The projected three-year CIP from FY25 through FY27 averages about \$650M. Based on that, we expect tasking for Engineering Services to stay comparable to current levels for the next few years.

In addition to the increase in contracting volume, there has been an evolution in the type of contracts that we use. There are many more IDIQ and MSA contracts than the department had five years ago. These contracts help operating departments be more responsive to immediate needs and expedite getting construction work done. They do, however, carry more of an administrative burden since the level of engineering is typically less than a Design-Bid-Build project. There can be one or two dozen task orders or delivery orders on each contract that need to be individually invoiced and tracked. IDIQ or MSA contracts therefore require much more administrative work than a similarly sized individual contract.

Engineering Services is funded by charges against the projects we are managing that are referred to as reimbursements. Engineering Services reimbursements are budgeted at around 6% of total project cost in the CIP (8% for most projects and 3% for very large projects). Engineering Services endeavors to maintain actual reimbursements at less than the 6% of total project cost. Staff uses 6% as a metric because that compares favorably with peer organizations performing similar scopes of work such as the US Army Corps of Engineers (USACE), the Naval Facilities Command (NAVFAC) and other municipal program management offices. For example, USACE charges 5.7% for projects over \$6 million and 6.5% for projects under \$6 million. NAVFAC charges similar amounts. The City of San Antonio provides budget guidance of allowing 7-9% to manage capital projects in the size range of our average project size of \$10 million.

As a performance metric, Engineering Services compares our monthly financial throughput against our monthly costs. For the 3-month period of December 2024 – February 2025, Engineering throughput averaged almost \$30 million per month. That rate of throughput would support an annual budget of nearly \$22 million for Engineering Services at 6%. With this requested action, Engineering Services would have an amended FY25 budget of roughly \$15.6 million. The impact for FY26 would be slightly less due to one-time vehicle costs in FY25. With the requested staffing increase, if throughput maintains current rates, Engineering Services' costs will end the year under 4.5% of financial throughput, which is well below the CIP budgeted amounts and 6% performance target. We are achieving these efficiencies through leveraging technology and streamlining processes.

ALTERNATIVES:

The alternative is to not approve these adjustments. Not adjusting the Engineering Services staffing will inevitably slow down the execution of the CIP and will result in greater financial risks for the City. Some important business transactions such as change orders and monthly pay application processing may be delayed. There will probably be more undetected construction quality issues. Construction costs can also be escalated due to owner-caused delays to contractor execution.

FISCAL IMPACT:

The fiscal impact is funded within CIP and the proposed increase is still well within the budgeted amounts. Engineering Services is funded by cost recovery from CIP project budgets. The City Auditors require the Engineering reimbursements to be based on actual staff time spent on the projects. Our costs are charged to projects on a quarterly basis based on hours charged.

Engineering Services Reimbursements are typically budgeted in the CIP at 8% for most projects and 3% for very large projects. We use 6% of financial throughput as a performance target. Since our actual costs are running well below the budgeted 6%, the fiscal impact from approving this action is funded with the adopted CIP. Denying this would likely result in a reduction of Engineering Reimbursements charged to projects but could result in project delays, mistakes, poor performance, quality issues and added construction costs. The FY 2025 impact is \$2,492,000 including vehicle purchases with an FY2026 recurring amount of \$2,084,000

RECOMMENDATION:

Staff recommends approval of the Ordinance to add twenty positions with required salaries, benefits, and equipment to the Engineering Services Department.

LIST OF SUPPORTING DOCUMENTS:

Ordinance
Proposed Budget Adjustment